May 14, 2020

MEMORANDUM

TO: Teri Holoman, Associate Executive Director
    Lori Easterling, Manager, Legislative Relations

FROM: Katie Hardeman, Legislative Advocate

RE: 2020-21 May Revision

The following is a summary of the major components of the 2020-21 May Revision to the Governor’s Budget related to revenues and K-14 education. The final budget must be passed by June 15th.

**State Revenues** – On May 7th, the Department of Finance released their updated fiscal outlook, revealing an estimated $54.3 billion deficit compared to the Governor’s January Budget. This includes a $41.2 billion reduction in revenues, $7.1 billion increase in caseload and $6 billion in additional spending related to COVID-19.

**Tax Credits** - The May Revision includes $4.5 billion in temporary additional revenue through suspending certain tax credits. Specifically, the May Revision proposes a temporary three-year suspension of net operating losses and limitation on business incentive tax credits to offset no more than $5 million of tax liability per year. This increases the Proposition 98 (Prop 98) minimum guarantee by $1.8 billion in 2020-21.

**Reserves** – Proposition 2, enacted by the voters in 2014, created the Budget Stabilization Account (BSA), with certain requirements for deposits and withdrawals. Additionally, the state created the Safety Net Reserve. The May Revision proposes to draw down $16.2 billion in funding from the BSA and Safety Net Reserve over three years. This includes $8.3 billion in BSA and $450 million in Safety Net Reserves in 2020-21.

Proposition 2 also created the Public School System Stabilization Account (PSSSA), or the Proposition 98 reserve. The May Revision allocates the balance of the PSSSA for programmatic spending in 2019-20 (approximately $524 million).

**Federal Funds** – The May Revision includes a one-time investment of roughly $4.4 billion ($4 billion federal Coronavirus Relief Fund and $355 million federal Governor’s Emergency Education Relief Fund) to local educational agencies to address learning loss related to COVID-19 school closures, especially for students most heavily impacted by those closures, including supporting an earlier start date for the next school year.

Additionally, California received $1.6 billion in federal Elementary and Secondary School Emergency Relief funds. Of this amount, 90 percent ($1.5 billion) will be allocated to local educational agencies in proportion to the amount of Title I funding they receive for COVID-19.
related costs. The remaining 10 percent ($164.7 million) is available for COVID-19 related state-level activities.

California Community Colleges are expected to receive $579 million from the Higher Education Emergency Relief Fund. Community colleges are required to expend half of the higher education funds to provide emergency grants to students.

California also received $350.3 million through the federal CARES Act for COVID-19 related child care activities.

**Proposition 98** - The Prop 98 funding level for 2020-21 is projected to be $70.5 billion, a $10.6 billion (23 percent) decrease from the level adopted in the 2019 Budget Act. The May Revision projects the Prop 98 minimum guarantee will be $78.7 billion in 2018-19 and $77.4 billion in 2019-20. This results in a total decrease in Prop 98 funding of $19 billion over the period, compared to the Governor’s January Budget.

The May Revision projects Prop 98 “Test 1” is operative in 2020-21 and the out-years. The May Revision proposes to provide supplemental appropriations above the constitutionally required Prop 98 funding level, beginning in 2021-22, and in each of the next several fiscal years, in an amount equal to 1.5 percent of General Fund revenues per year, up to a cumulative total of $13 billion. This will increase the Prop 98 share of the General Fund from 38 percent to 40 percent over time.

**Pension Costs** – The May Revision proposes to redirect the $2.3 billion provided to CalSTRS and CalPERS toward long-term unfunded liabilities to instead further reduce employer contribution rates for local educational agencies and community colleges in 2020-21 and 2021-22.

**Payment Deferrals** – The Governor is proposing to defer $1.9 billion in LCFF payments from 2019-20 to 2020-21 and an additional $3.4 billion, for a total of $5.3 billion from 2020-21 to 2021-22.

**Local Control Funding Formula** – The Governor’s May Revision includes a 10 percent ($6.5 billion) reduction to the LCFF, as compared to the Governor’s proposed January Budget. This reduction includes the elimination of a 2.31 percent cost-of-living adjustment. This reduction will be eliminated if the federal government provides sufficient funding to backfill this cut through the Health and Economic Recovery Omnibus Emergency Solutions Act (the “HEROES Act”).

**Special Education** – The May Revision maintains the Governor’s January Budget proposal to increase special education base rates, updated at May Revision to $645 per pupil (reflecting the suspension of the 2.31 percent cost-of-living adjustment), allocated to Special Education Local Plan Areas. This new base rate represents a 15 percent increase to the base funding over the amount provided in the 2019 Budget Act.

**Categorical Programs** – The Governor’s May Revision proposes additional trigger cuts to specified categorical programs totaling $352.9 million, including: After School Education
and Safety, K-12 Strong Workforce, Career Technical Education Incentive Grant, Adult Education Block Grant, California Partnership academies, and other programs. These cuts would be triggered if additional federal funding is not provided.

**Local Property Tax Adjustments** – The May Revision includes an increase of $84.5 million Proposition 98 General Fund in 2019-20 and $727 million Proposition 98 General Fund in 2020-21 for school districts, special education local plan areas, and county offices of education as a result of lower offsetting property tax revenues in both years.

**Other Adjustments:**

- Eliminates the proposed increases included in the Governor’s January Budget, including funding for educator retention and professional development, special education preschool grants, opportunity grants, community schools, child nutrition and other programs.
- Reallocates $300 million in unspent one-time non-Proposition 98 General Fund in within the Full-Day Kindergarten Facilities Grant Program.
- Provides $15 million federal Individuals with Disabilities Education Act (IDEA) funds for the Golden State Teacher Scholarship Program to increase the special education teacher pipeline.
- Suspends the statutory cost-of-living adjustment of 2.31 percent in 2020-21 for all eligible programs.
- Provides additional flexibility for local educational agencies, including providing an exemption from deferrals for local educational agencies with economic hardship.

**Early Childhood Education** – The May Revision includes a number of trigger reductions to child care and preschool if additional federal funding is not provided. These trigger reductions include recent augmentation made around child care and preschool slots, rates, workforce and infrastructure grants and COLAs.

**Community Colleges** – The May Revision includes the following proposals related to community colleges:

- Extends the existing hold harmless provision of the Student-Centered Funding Formula by two additional years, and provides a 10 percent cut to the formula.
- Defers payments to community colleges as follows:
  - $330.1 million Prop 98 General Fund from 2019-20 to 2020-21
  - $662.1 million Prop 98 General Fund from 2020-21 to 2021-22
- Sustains support for two years of free community college for the Student Success Completion Grants.
- Maintains several categorical programs at current funding levels, including the Educational Opportunity and Services Program and the Disabled Students Programs and Services Program, and sustains the proposal to provide $10 million ongoing Proposition 98 General Fund to support immigrant legal services.
• Withdraws many proposals included in the Governor’s January Budget, including a faculty fellowship pilot program, one-time funding for part-time faculty office hours and other proposals.
• Includes a decrease of $11.4 million ongoing Prop 98 General Fund for support food pantries at community college campuses.
• Provides a decrease of $5.8 million ongoing Proposition 98 General Fund to support Dreamer Resource Liaisons.
• Allows community colleges to use restricted fund balances, except lottery balances, to address COVID-19 related impacts and the loss of fee revenue.
• Provides an increase of $130.1 million Prop 98 General Fund as a result of decreased offsetting local property tax revenues.

The May Revision includes the following trigger reductions for community colleges if additional federal funding is not provided:

• $593 million Prop 98 funding for a 10 percent cut to the Student Centered Funding Formula.
• $167.7 million ongoing Prop 98 funding for a 2.31 percent cost-of-living adjustment for apportionments.
• $31.9 million ongoing Prop 98 funding for enrollment growth.
• $83.2 million Prop 98 funding, of which $40.4 million was one-time, for support of apprenticeship programs, the California Apprenticeship Initiative, and work-based learning models.
• $68.8 million Prop 98 funding for the Student Equity and Achievement Program.
• $7.3 million Prop 98 funding for the Part-Time Faculty Compensation, Part-Time Faculty Office Hours, and the Academic Senate of the California Community Colleges.
• $3 million Prop 98 funding for Calbright College.

**Financial Aid** – The May Revision maintains the state’s investment in two years of free community college while also providing students with continued access to major financial aid programs, including the California College Promise fee waiver, Cal Grant awards, the students with dependent children Cal Grant supplement, and the Middle Class Scholarship.

*Please note these are only highlights and further details will be forthcoming.* As always, please keep in mind, this is still a “proposal” and must be negotiated through the legislative process.

cc: Joe Boyd  
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