

Budget & Economic Update

School Board Meeting

Presented by:
Dr. Lisa Gonzales
Chief Business Officer

May 11, 2020

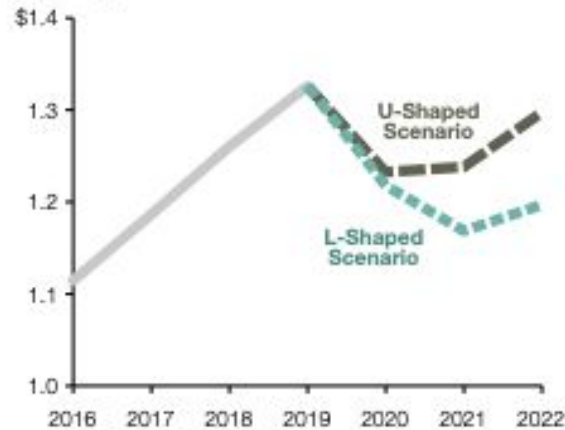
Projections of Key Economic Variables in California

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

Legislative Analyst's Office
www.lao.ca.gov

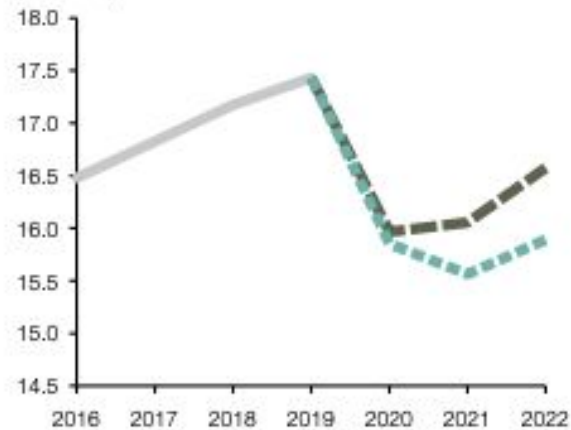
Wages and Salaries

(In Trillions)



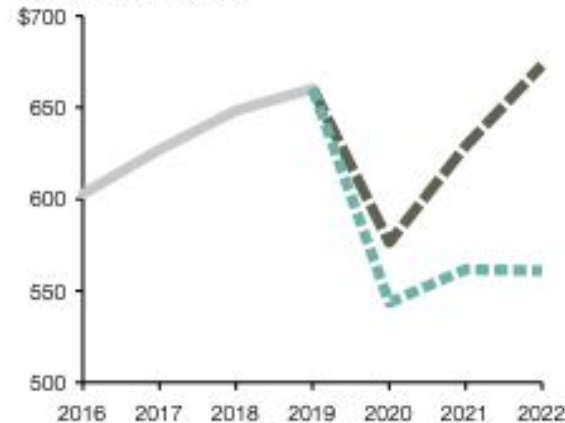
Payroll Jobs

(In Millions)

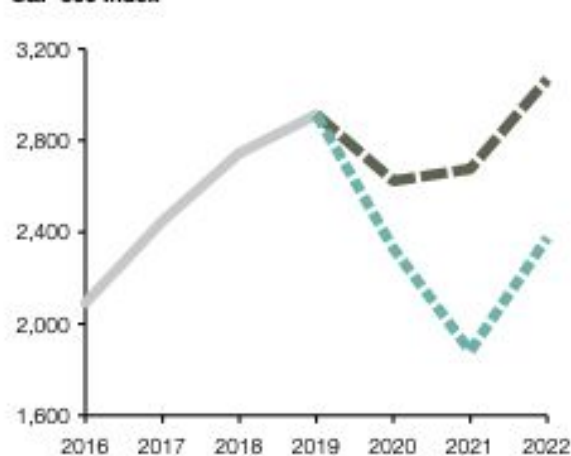


Taxable Sales

Excludes Fuel (In Billions)



S&P 500 Index



Governor Newsom announced a \$54B budget deficit

- State's three main revenue sources in the General Fund will drop

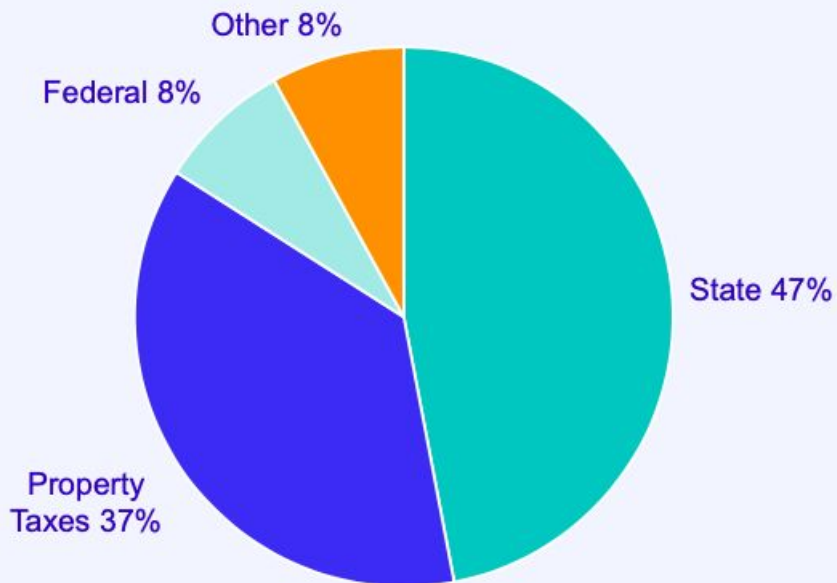
Personal income tax (-25.5%) Sales Tax (-27.2%) Corporate tax (-22.7%)

- \$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

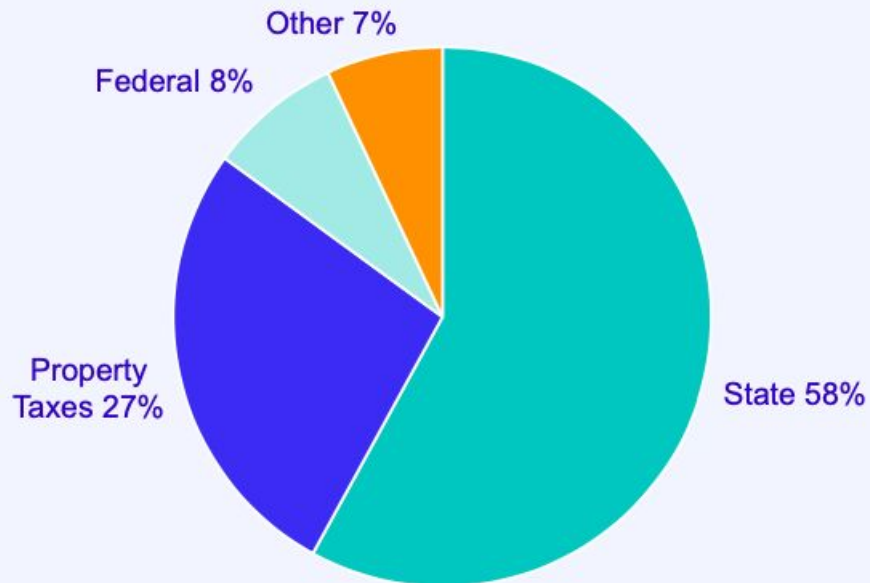
Legislative Analyst's Office (LAO) - calculating the shortfall at \$20-30B a year

Public School Revenue Sources

United States

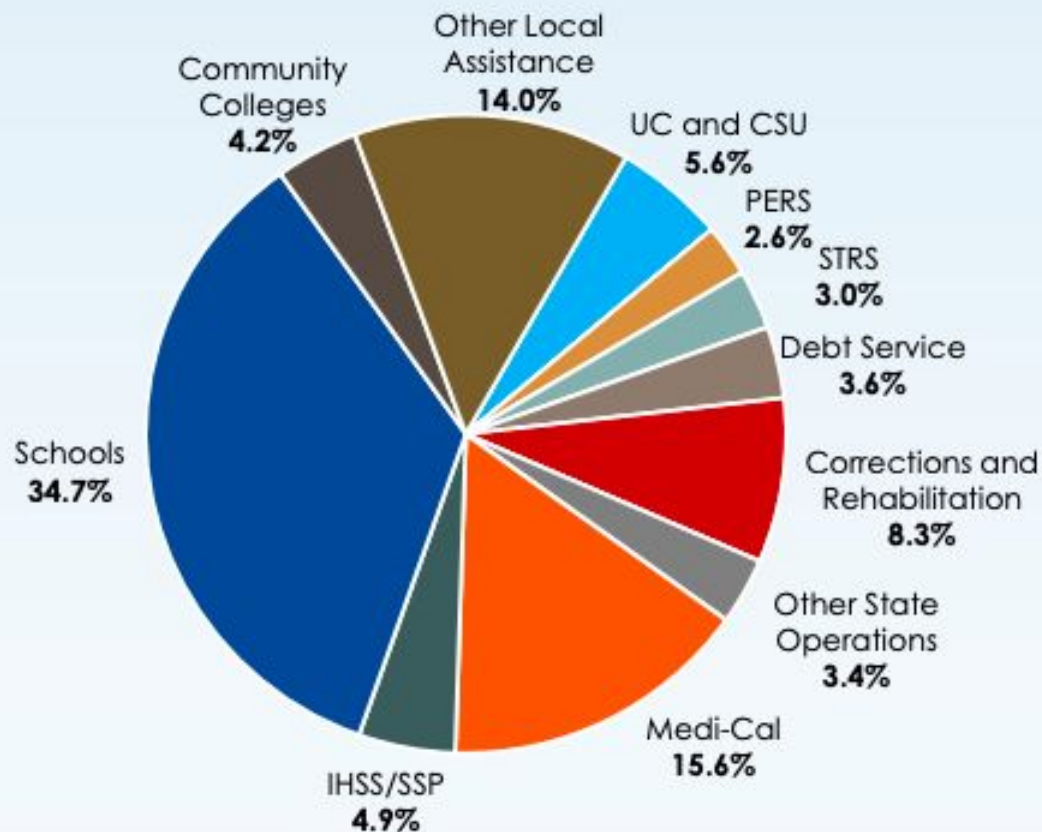


California



Source: National Center for Education Statistics, April 2020

Where Do State General Fund Dollars Go?



Source: The 2019 Budget Act

Snapshots in Time

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

The 3 Tests of the Prop 98 Guarantee

Prop 98 is tied to the California Constitution. A reduction in state revenue means the Prop 98 minimum guarantee drops.

Test 1

Links the minimum guarantee to a share of approximately 40% of the state's General Fund revenue

Test 2

It adjusts the prior year's Prop 98 funding for a change in attendance and per capita personal income

Test 3

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

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

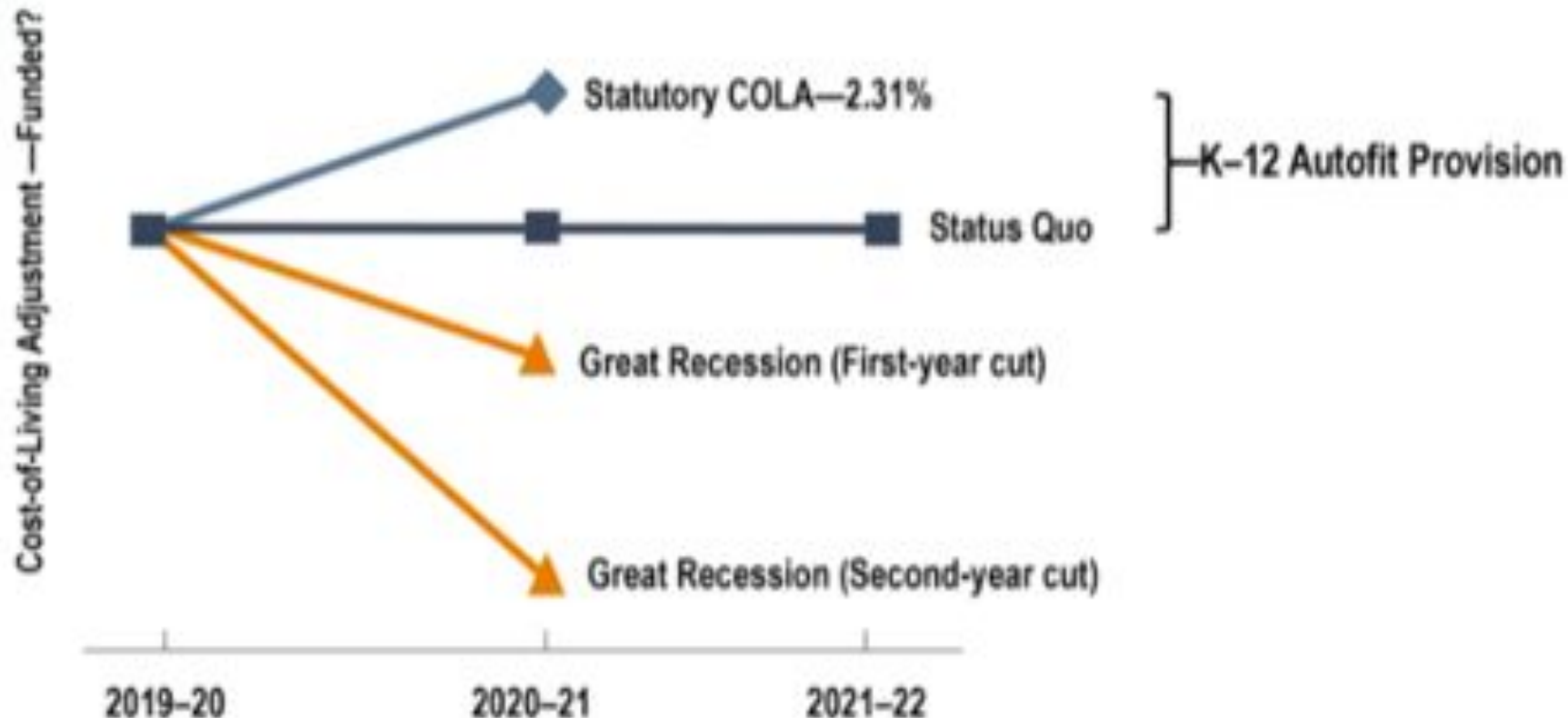
**The estimated loss across these two
years is the equivalent of a - 22%
COLA.**

Current Estimated
2020-2021

Now reduced by \$14.6
billion to \$69.4 billion

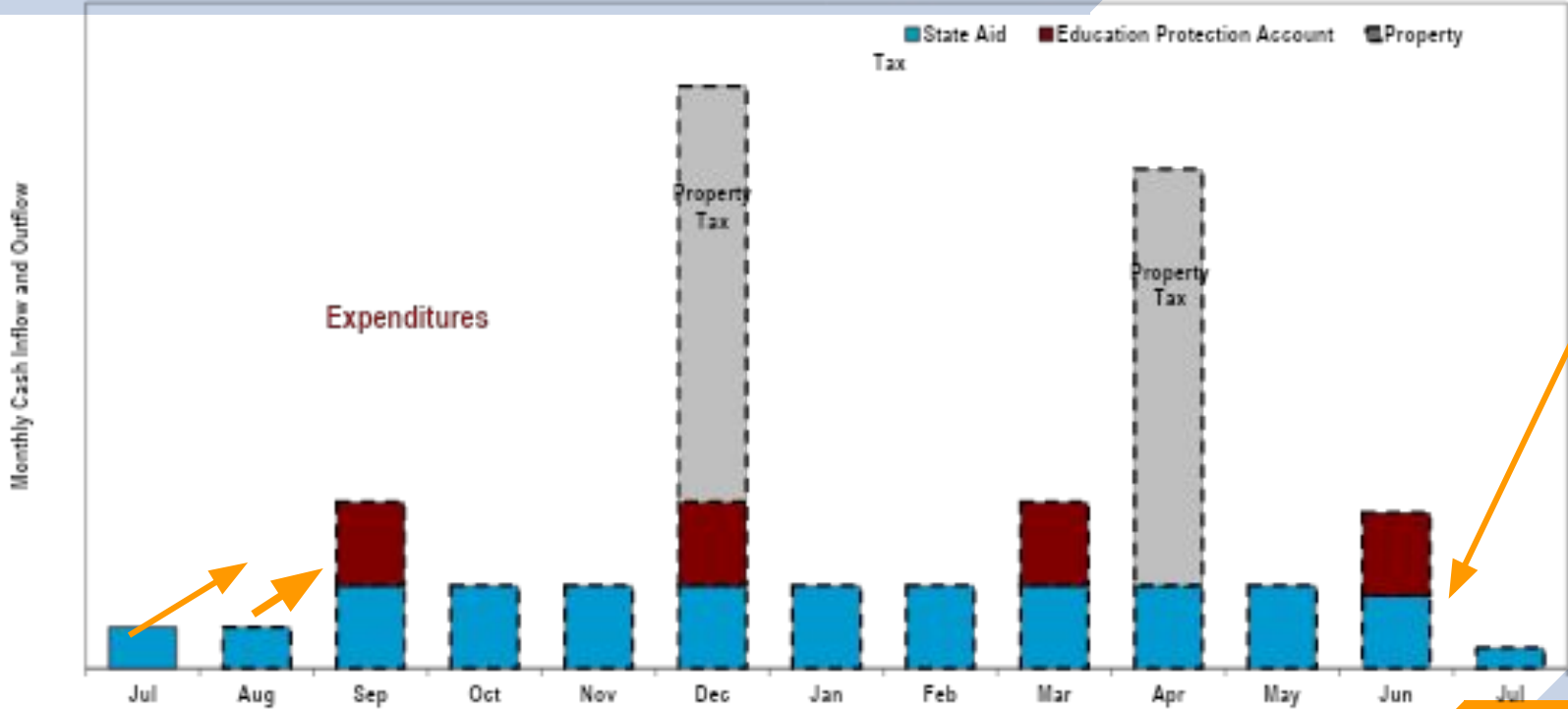
Average reduction is
approximately \$2,300 per
ADA (average daily
attendance) - inclusive of
LCFF is \$2,600 - \$2,700

Cost-of-Living Adjustment (COLA)—Funded?

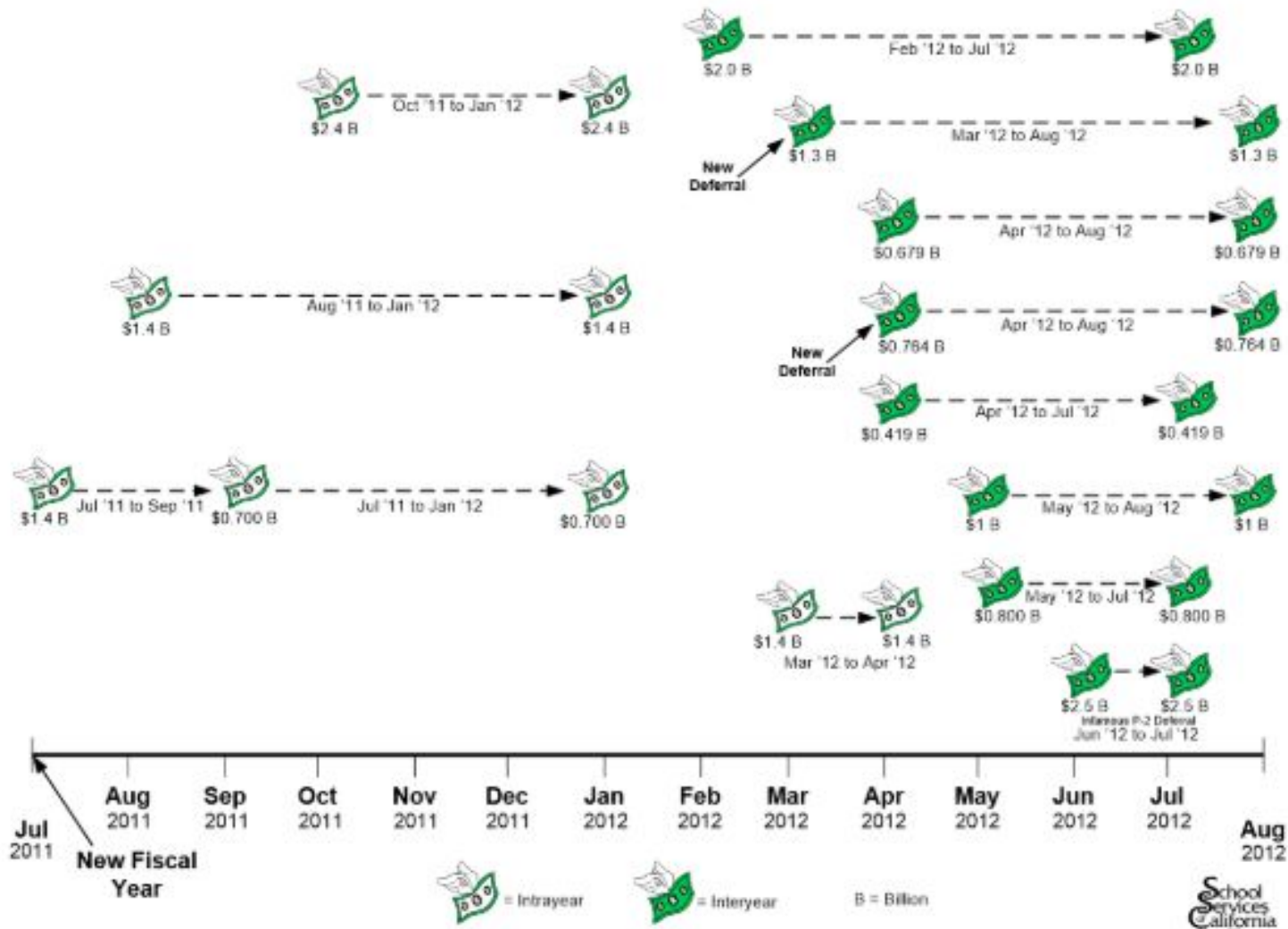


What does "Cash Flow" mean and what are apportionments?

Salaries are highest in June



Impact of Apportionment Deferrals



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 September
- One year LCAP approval in December, tied to budget

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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