



Hacienda La Puente Unified School District

The Governor's May Revise Budget

Board Meeting
May 28, 2020

BBO

Introduction

➤ ***On May 14, 2020, Governor Newsom released his 2020-21 May Revise Budget (or Revised “California for All” State Budget).***

➤ ***His Press Release stated:***

“COVID-19 has caused California and economies across the country to confront a steep and unprecedented economic crisis – facing massive job losses and revenue shortfalls. Our budget today reflects that emergency. We are proposing a budget to fund our most essential priorities – public health, public safety and public education – and to support workers and small businesses as we restart our economy. But difficult decisions lie ahead. With shared sacrifice and the resilient spirit that makes California great, I am confident we will emerge stronger from this crisis in the years ahead.”

Economic Effects of COVID-19

- **Eleven years of economic expansion came to a screeching halt this year**
 - As former Governor Jerry Brown always warned us, a recession was coming, but even he could not have foreseen this
- No aspect of the national or state economy seems to be unscathed by the virus and the path to recovery is unknown
 - There are no models for how a world recovers from a near total shutdown of economies around the globe
 - **Initial recovery projections were optimistic, but along with the number of cases of COVID-19, have become more and more grim**
- **The actual economic effects will not be known for months and years, but nonetheless, the Administration must make some assumptions as to how far California will fall and how it will make its eventual comeback**

National Economic Outlook

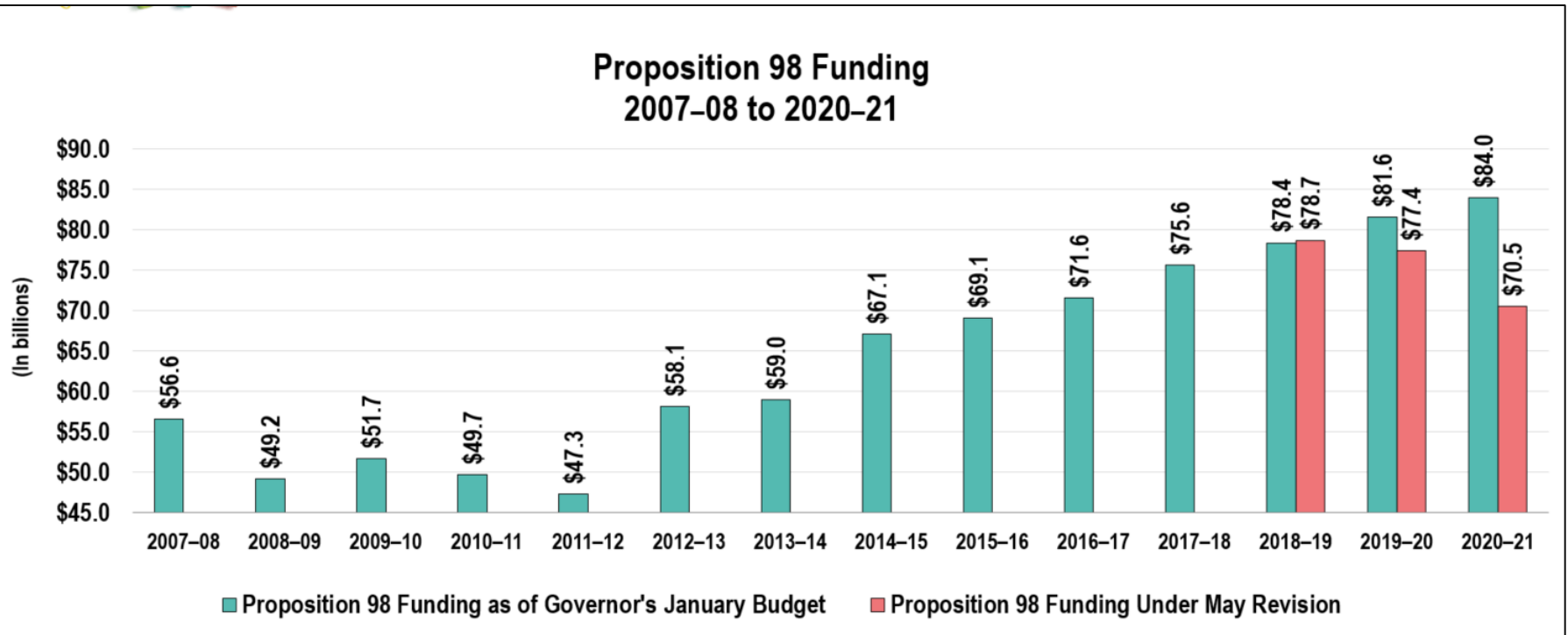
- **The COVID-19 pandemic has shut down economies across the globe**
- The U.S. is the largest economy in the world and its health relies on a healthy international economy
 - China's Gross Domestic Product (GDP) shrank by 6.8% in the first three months of 2020—its first economic contraction in 40 years and the European Union's economy is expected to contract by 7.5% in 2020
- **National unemployment is projected to reach historic levels—akin to the Great Depression era**
- **Personal income nationwide dropped by 2% in March while consumption fell by 7.5%**
- Aside from the coronavirus itself and the ability to combat it with effective therapies or a vaccine, there are other risks to the national economy
 - Trade “cold war” with China
 - Sluggish global demand for U.S. goods
 - Small and large business bankruptcies that forestall an employment rebound and the confidence consumers need to start spending again

May Revise – State Revenues

- ❖ The May Revision assumes that the state will suffer from a \$41.2 billion loss in revenues compared to January estimates in 2019-20 and 2020-21 combined
 - ❖ -\$9.1 billion for 2019-20
 - ❖ -\$32.2 billion for 2020-21

- ❖ The May Revision estimates that the minimum guarantee will decline approximately 23% from the 2019 State Budget Act over the three-year budget period

The May Revision projects a large recession due to the COVID-19 pandemic



Prop 98 Summary

Changes from January Budget	January Budget	May Revise	Increase <Decrease>
2018-19 Prop 98 Guarantee	\$78.4 billion	\$78.7 billion	\$0.3 billion
2019-20 Prop 98 Guarantee	\$81.6 billion	\$77.4 billion	<\$4.2 billion>
2020-21 Prop 98 Funding	\$84.0 billion	\$70.5 billion	<\$13.5 billion>

Proposition 98 Funding

- ❖ The revised 2020-21 Budget includes a large decrease of \$13.5 billion compared to the Governor's January Budget.
- ❖ This brings the Prop 98 down to \$70.5 billion.
- ❖ With COVID-19's impact on the state's revenues, education funding is dropping precipitously
- ❖ The revised 2020-21 LCFF funding change goes from \$1.2 billion in the Governor's January budget to -\$6.5 billion in the May Revise

Local Control Funding Formula - COLA

- ❖ The cost-of-living adjustment in the May Revise is 0%, which is a decrease from the January Budget's 2.29%.
- ❖ There is a 0% COLA for all three years and new from the May revise is a deficit factor applied all three years
- ❖ COLA is also suspended for categorical programs

Impact to HLPUSD LCFF Revenues

LCFF revenue estimates:	2020-21	2021-22	2022-23
Pre-COVID-19	\$ 191,817,786	\$ 193,583,091	\$ 193,583,091
Post-COVID-19	<u>\$ 173,552,822</u>	<u>\$ 169,740,588</u>	<u>\$ 165,956,684</u>
Better/(Worse)	\$ (18,264,964)	\$ (23,842,503)	\$ (27,626,407)
Total Revenue shortfall due to COVID-19 over 3 years	\$ (69,733,874)		

HLPUSD has a significant negative impact on incoming revenues due to this pandemic

The Rainy Day Fund

Public School System Stabilization Fund

- ❖ The Budget Stabilization Account (BSA) currently has about \$16.2 billion
- ❖ Proposition 2 (2014) stipulates that a withdrawal may not exceed half of the BSA balance in the first year of a budget emergency.
- ❖ The May Revision proposes to draw down the entirety of the \$16.2 billion over three years
 - ❖ This includes \$7.8 billion for 2020–21

Discretionary Funds

- ❖ Unlike the past several years, no one-time discretionary funds are being proposed.

CalSTRS/CalPERS Payment

❖ Governor Newsom now proposes to redirect \$2.3 billion to further reduce employer contribution rates in 2020–21 and 2021–22.

❖ CalSTRS Employer Rate
2020–21: ↓18.4% to 16.15%
2021–22: ↓18.2% to 16.02%

❖ CalPERS Employer Rate
2020–21: ↓22.68% to 20.7%
2021–22: ↓24.6% to 22.84%

Next Steps

What are the next steps for the State?

- ❖ The State Assembly, the Senate, and the Governor review the May Revision and move toward finalizing their versions of the budget in subcommittee hearings.
- ❖ The Legislature has had to make significant adjustments to hearing schedules and procedures as a result of COVID-19.
- ❖ We should expect a minimum number of budget hearings prior to the Legislature's vote to adopt a budget
- ❖ By June 15th, the Legislature must pass a balanced budget.
- ❖ Between June 15th and July 1st, the Governor signs the budget package (and may issue vetoes).
- ❖ Once the 2020-21 State Budget is adopted, the District will revise its budget accordingly, as required by law.

Final Thoughts

What are the next steps for the State?

- ❖ It's important to keep in mind that there are still a lot of unknowns
- ❖ Economic data will continue to inform revenue projections, like personal income tax, unemployment figures, and updates in the national and state GDP
- ❖ Historically, during such uncertain times, the state would sometimes revise its budget depending on the magnitude of differences in the June estimates and reality
- ❖ The Legislature still needs to weigh in with its priorities, which may or may not align with Governor Newsom's
- ❖ A top concern for lawmakers is halting and then recovering the learning students have lost as a result of COVID-19
- ❖ Once the 2020-21 State Budget is adopted, the District will revise its budget accordingly, as required by law.

Thank you!