



# Legislative Update

May 21, 2020

## Governor Newsom's May Revision of 2020-21 Budget

### INTRODUCTION

Governor Newsom released the May Revision to the 2020-21 State Budget on May 14, 2020. California began 2020 with a solid fiscal foundation. As the proposal notes, the state started the year with a “strong and diverse economy, historic reserves, and a structurally balanced budget. It had eliminated past budgetary debts and deferrals and was making extraordinary payments to reduce pension liabilities. In January, a budget surplus of \$5.6 billion was projected for the 2020-21 fiscal year. Revenues through March were running \$1.35 billion above projections.”

Unfortunately, the COVID-19 pandemic and resulting recession has changed the fiscal landscape dramatically. Compared to the January forecast, General Fund revenues are projected to decline over \$41 billion. This revenue drop, combined with increased costs in health and human services programs and the added costs to address COVID-19, leads to a projected budget deficit of approximately \$54 billion before the changes proposed in the May Revision.

Because of this significant drop in projected revenue, the May Revision estimates that the Proposition 98 guarantee will be \$19 billion lower than the January budget proposal. The updated estimates for total Proposition 98 (including state general funds and local funds) are \$78.7 billion in 2018-19; \$77.4 billion in 2019-20; and \$70.5 billion in 2020-21. For comparison, when the 2019-20 budget (current year) was enacted, Proposition 98 funding was \$81.1 billion. This translates to a 13% year over year cut, as proposed.

Given the dire economic forecast of the state, the Governor is proposing a number of cuts to public education, as well as a number of strategies to ameliorate several of them. Below is a summary of the proposed cuts and proposed strategies to address the projected budget deficit for early childhood education, K-12 and higher education.

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### EARLY CHILDHOOD EDUCATION PROPOSALS

- California received \$350.3 million through the federal CARES Act for COVID-19 related childcare activities. The May Revision proposes the following expenditure plan for these dollars:
  - \$144.3 million for state costs associated with COVID-19, family fee waivers and provider payment protection.
  - \$125 million for one-time stipends for state-subsidized childcare providers offering care during the COVID-19 pandemic.

- \$73 million for increased access to care for at-risk children and children of essential workers.
- \$8 million to extend family fee waivers until June 30, 2020.
- The Governor’s January budget proposed to establish the Department of Early Childhood Development under the California Health and Human Services Agency effective July 1, 2021. The May Revision proposes to modify this proposal for purposes of cost savings and instead transfer the childcare programs to the Department of Social Services.
- Absent additional federal funds, the following reductions will be made to the State Preschool Program:
  - \$159.4 million to eliminate 10,000 slots scheduled to begin April 1, 2020 and 10,000 additional slots scheduled to begin April 1, 2021.
  - \$130 million to align State Preschool funding with demand.
  - \$161.9 million to reflect a 10 percent decrease in the State Preschool daily reimbursement rate.
  - \$32.1 million to reflect suspension of a 2.31 percent Cost-of-Living Adjustment (COLA).
  - \$6.3 million to eliminate a 1 percent add-on to the full-day State Preschool reimbursement rate.
- Absent additional federal funds, the Governor’s May Revision proposes the following cuts to childcare:
  - \$408 million for childcare workforce and infrastructure.
  - \$223.8 million to reflect a 10 percent decrease in the Standard Reimbursement Rate and the Regional Market Rate.
  - \$35.9 million to reflect lower caseload estimates in CalWORKs Stage 2 and Stage 3 childcare.
  - \$25.3 million to reflect suspension of a 2.31 percent COLA.
  - \$10 million from the 2019 Budget Act for childcare data systems.
  - \$4.4 million to the Early Childhood Policy Council.

## **TK-12 EDUCATION PROPOSALS**

- The budget proposal cuts General Fund spending on K-12 Education by 12.6%, or \$6.9 billion. Nearly all January budget proposals for K-12 and higher education are withdrawn and deleted from the May budget. The May proposal also calls for the withdrawal of all funds available (estimated at \$524 million) in the Public School System Stabilization Account.
- The COLA for 2020-21 is calculated at 2.31%, per statute and is applied to calculations in the May Revision, but the proposal then calls for a 10% cut to all programs to which it would apply (e.g., categoricals and the Local Control Funding Formula (LCFF)).

- The May Revision proposes a 10% or \$6.5 billion cut to LCFF. This significant cut is one of several “trigger” proposals and could be “triggered off” if the federal government provides sufficient funding to backfill it.
- Proposition 98 reductions include cuts to K-12 categorical programs totaling \$352.9 million. Absent additional federal funds, these cuts are proposed:
  - After School Education and Safety: \$100 million
  - K-12 Strong Workforce Program: \$79.4 million
  - Career Technical Education Incentive Grant Program: \$77.4 million
  - Adult Education Block Grant: \$66.7 million
  - California Partnership Academies: \$9.4 million
  - Career Technical Education Initiative: \$7.7 million
  - Exploratorium: \$3.5 million
  - Online Resource Subscriptions for Schools: \$3 million
  - Specialized Secondary Program: \$2.4 million
  - Agricultural Career Technical Education Incentive Grant: \$2.1 million
  - Clean Technology Partnership: \$1.3 million
- The May proposal for Special Education maintains the Governor’s January proposal to increase per pupil base rates to \$645; however, it eliminates the proposed funding for special education services to 3-5 year olds. The new base rate reflects a 15% increase in the Proposition 98 contribution, compared with the 2019-20 budget act.
- The May Revision proposes a temporary three-year suspension of net operating losses and limitation on business tax credits. Without this proposal, the Proposition 98 Guarantee would be approximately \$1.8 billion lower.
- Federal CARES Act funding for K-12 is proposed for “Learning Loss Mitigation.” A \$4.4 billion one-time federal appropriation is proposed for local educational agencies (LEAs) to address “learning loss” related to COVID-19 school closures, especially for students most heavily impacted. These funds must be spent by the end of 2020. The funding comes from the Coronavirus Relief Fund and the Governor’s Emergency Education Relief Fund. The Governor’s proposal would allocate funds to school districts that currently receive concentration grants. The funding could be used in various ways, including the following:
  - Learning supports that begin prior to the start of the school year and the continuing intensive instruction and supports into the school year.
  - Extending the instructional school year, including an earlier start date, by increasing the number of instructional minutes or days.
  - Providing additional academic services, including diagnostic assessments of student learning needs, intensive instruction for addressing gaps in core academic skills, additional instructional materials or supports or devices and connectivity for the provision of in-classroom and distance learning.
  - Providing integrated student supports to address other barriers to learning, such as the provision of health, counseling or mental health services, professional development opportunities to help teachers and parents support pupils in distance-learning contexts, access to school breakfast and lunch programs or programs to address student trauma and social-emotional learning.

- California has received an additional \$1.6 billion in federal CARES Act funding for education. Ninety percent of these dollars is required to be distributed directly to LEAs based upon the federal Title I formula. The remaining 10% (\$164.7 million) is proposed to be used for the following purposes:
  - \$100 million for grants to county offices of education for the purpose of developing networks of community schools to provide coordinated health, mental health and social service supports for high-need students.
  - \$63.2 million for professional development for teachers, administrators and other school personnel focused on mitigating opportunity gaps and providing enhanced equity in learning opportunities, addressing trauma-related health and mental health barriers to learning and developing strategies to support necessary changes to the educational program.
- The May Revision also proposes apportionment deferrals to LEAs. In 2019-20, the budget proposes to defer \$1.9 billion of LCFE apportionments to 2020-21. An additional \$3.4 billion is added to the 2019-20 deferral in 2020-21 for a total of \$5.3 billion in LCFE deferrals scheduled for payment in 2021-22.
- The May Revision proposes to provide “supplemental” appropriations above the constitutionally guaranteed Proposition 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.
- The May Revision proposes a number of fiscal and programmatic flexibilities for LEAs, including the following:
  - Increase LEA internal inter-fund borrowing limits to mitigate the impact of apportionment deferrals.
  - Allow the use of proceeds from the sale of surplus property for one-time general fund purposes.
  - Allow special education staff to use technology-based options to serve students.
  - Extend the deadline for transitional kindergarten teachers to obtain 24 college units of early childhood education from August 1, 2020 to August 1, 2021.

## **CALSTRS AND CALPERS**

- The May Revision proposes redirecting \$2.3 billion paid to CalSTRS and CalPERS towards long-term unfunded liabilities to further reduce employer rates in 2020-21 and 2021-22. This reallocation will reduce employer rates as follows:

### CalSTRS Employer Rate Reductions

2020-21: 18.41% to 16.15%

2021-22: 18.20% to 16.02%

### CalPERS Employer Rate Reductions

2020-21: 22.67% to 20.7%

2021-22: 25% to 22.84%

## COLLEGE PROPOSALS

- The proposal cuts General Fund spending for Higher Education, overall, by 9.8% or \$1.7 billion.
- The cuts affecting Community Colleges include the cuts to Proposition 98 and the elimination of the 2.31% COLA. Proposed reductions to ongoing funding for Community Colleges total \$1.1 billion:
  - Student Centered Funding Formula (SCFF) funding is cut by \$593 million (roughly 10 percent), and the Governor proposes amending statute to proportionally reduce district allocations through adjustments to the formula's rates, stability provisions and hold harmless provisions.
  - \$167.7 million for the suspension of the COLA in ongoing Proposition 98 funding.
  - \$31.9 million for enrollment growth funding.
  - \$128.9 million from the Strong Workforce Program.
  - \$68.8 million from the Student Equity and Achievement Program.
  - \$7.3 million for Part-Time Faculty compensation and office hours.
  - A \$3 million cut to Calbright College funding.
  - These cuts are to be “triggered off” if California receives federal funding to cover them.
- Community College proposals also include:
  - Withdrawal of most January proposals, including the \$10 million augmentation for Part-Time Faculty office hours, but sustains two years of free community college.
  - Extending the Student Centered Funding Formula hold harmless provisions for an additional 2 years, and require cuts to be applied proportionately.
  - Exempting direct COVID-19 relate expenses from the 50 percent law.
  - Apportionment deferrals in 2019-20 to 2020-21 (\$330 million) and 2020-21 to 2021022 (\$662.1 million).
  - Supplemental payments to increase the Proposition 98 Guarantee would also increase funding Community Colleges starting in 2021-22.

## UNIVERSITY OF CALIFORNIA PROPOSALS

- The May Revision deletes the January proposal to increase the University of California (UC) and California State University (CSU) core funding by 5 percent. In addition. The budget proposal calls for 10 percent cuts in General Fund support for UC (\$338 million) and CSU (\$398 million). These cuts are to be “triggered off” if California receives federal funding to cover them.

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