

CASH May Revision 2020 Update

CASH staff is pleased to provide you with the following summary of the May Revision to the Governor's proposed 2020-21 State Budget. The May Revision is typically an updated budget proposal based on April tax filings. However, because the income tax deadline was extended to July 15, policymakers will not have an accurate picture of tax revenues by June 15, the constitutional deadline to adopt the state budget. The June 15 budget may be something of a "placeholder" budget, to be updated in August, and perhaps again in the Fall, when the state has a better understanding of tax revenues and additional Federal funds.

As anticipated, the May Revision shows a steep decline in the State's economic conditions. The 172-page summary document presents a balanced approach to closing the budget gap by creating a multi-year plan to reduce the existing deficit, canceling most program expansions and spending increases, drawing from state reserves, and creating new (temporary) sources of revenue. For some topics, we await the release of additional details.

State Economic Outlook

The State experienced a 22.3% decline in revenue in just over 100 days. The revised Budget represents a General Fund (GF) decrease of 9.4% from Fiscal Year (FY) 2019-20. The May Revision forecasts a peak unemployment rate of 24.5% in the second quarter of 2020 and a decline in personal income of nearly 9%. As a result of this deep decline in revenues and dramatic rise in unemployment, the Governor anticipates a deficit of \$53.4 billion through FY 2020-21.

Education Operations

The May Revision reduces the Local Control Funding Formula by 10%, and categoricals except special education by 50%. Proposition 98 is funded above the minimum guarantee—which has fallen by \$19 billion in response to the recession. The impact of the Proposition 98 decrease is partially mitigated by a combination of federal assistance, revenue increases and shift forward of state assistance to employers for State Teacher Retirement System (STRS) and CalPERS contributions. The revised Budget is written in such a way that the cuts to education operations would be rescinded if California were to receive additional federal assistance, such as through the passage of the Health and Economic Recovery Omnibus Emergency Solutions Act (HEROES) Act.

CARES Act

The \$4.4 billion in federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funding being used to mitigate the decrease in the Proposition 98 minimum guarantee is to address learning loss and equity gaps exacerbated by COVID-19 school closures, by starting the 2020-21 school year earlier or otherwise providing additional instruction time, and to "make necessary modifications so that schools can reopen in the fall and help support parents' ability to work." We take the latter to refer to any physical or operational adjustments that may be required to reduce risk while reopening school sites. We will review the forthcoming detail and trailer bill language for additional restrictions on the use of these funds.

School Facilities Program/Proposition 51

Although CASH requested acceleration of Proposition 51 bond apportionments to provide an economic stimulus, there are no references to Proposition 51 in the May Revision Summary. When the detail becomes available, we will confirm our assumption that the administration plans to continue sell and apportion \$1.5 billion per year until Proposition 51 funds are exhausted.

Full-Day Kindergarten Facilities Grant Program

As anticipated, the May Revision decreases by \$300 million the one-time non-Proposition 98 General Fund for construction of new, or retrofit of existing, facilities for full-day kindergarten programs. This is roughly the amount that is unexpended from the \$400 million provided for this purpose in the 2018 and 2019 Budget Acts. The May Revision proposes redirecting these unexpended program funds towards other GF purposes. This is in contrast to the Governor's January budget, which proposed to sweep \$150 million of the remaining funds to use for preschool facilities.

Facilities "Flexibility"

The May Revision does not include a proposal to reduce the 3% Routine Restricted Maintenance Account (RRMA) requirement, nor does it allow these funds to be used for GF purposes. It does include a technical change to the calculation of the RRMA that is part of the action taken with respect to STRS/CalPERS employer contributions, which does not affect the amount of RRMA contributions.

It also includes authority to use proceeds from the sale of surplus property for one-time general fund purposes. CASH has registered concerns about local educational agency (LEAs) transferring capital resources to their general funds, and the prospect of buying high and selling low. The May Revision Summary does not specify the duration of these measures. We will have to wait for the detail or even trailer bill language to determine whether these provisions would be in place during 2020-21 only, or for a longer period of time.

Climate Adaptation/Disaster Resiliency

The May Revision Summary is silent on the Governor's January proposal for a bond (and General Fund expenditures) to help public agencies adapt to climate change and become more resilient in response to natural disasters and Public Safety Power Shutoffs. During today's press conference, Governor Newsom said that the task of "strategically aligning bonds for economic stimulus" would be taken up by his 80-member advisory committee on COVID-19 recovery.

Broadband Internet

In April, the California Public Utilities Commission (CPUC) took various measures to close the digital divide. This included the allocation of resources to provide hotspots and Internet service for student households, as well as prioritizing rural, small, and medium-sized school districts. The May Revision includes \$2.8 million and three positions to enhance its broadband mapping activities to target these resources toward areas of the state which lack sufficient access. The May Revision also proposes statute intended to increase the ability of the state to compete for federal funding to improve access to broadband Internet in California.

Power Resiliency

The May Revision maintains \$50 million in one-time General Fund to support preparedness measures that bolster community resiliency to support critical services still vulnerable to power outage events, including schools, county election offices, and food storage reserves. This proposal supports a matching grant program to help local governments prepare for, respond to, and mitigate the impacts of power outages.