

Board of Education Executive Summary

Business Services

10.1 - State Budget Update for Fiscal Year 2020-21

May 7, 2020

I. OVERVIEW/HISTORY:

The District's approved 2019-20 Second Interim Financial Report presented to the Board on April 2, 2020 was based on the 2019-20 Enacted State Budget and the Governor's 2020-21 State Proposed Budget. Typically, Districts can rely on second interim information to inform the future year budgets. However, the impact of the COVID-19 pandemic crisis has drastically altered the economy and state's revenues which will have a severe effect on K-12 funding.

Although information regarding next year and future years' funding for K12 remains uncertain, it is expected that districts will plan for various LCFF COLA scenarios with a 0% COLA being the best case, -2% COLA a possible case and -10% COLA being the worst. Based on FCMAT's recommendation, the District has calculated the impact of three LCFF COLA scenarios - a 0%, -2% and -10% on the District's projected budget for LCFF revenue and cash flow. The projected COLA scenarios were applied to the District's current financial report, the 2019-20 Second Interim. The 2019-20 Third Interim Financial Report will be presented to the Board at the May 21, 2020 meeting.

II. Driving Governance:

- Education Code section 42127 requires the Governing Board of each school district to adopt a budget on or before July 1st. The budget to be adopted shall be prepared in accordance with Education Code section 42126. The adopted budget shall be submitted to the County Office of Education. The County Office of Education will determine if the district will be able to meet its financial obligations during the fiscal year and the subsequent two years. The County Office of Education will either approve, disapprove, or conditionally approve the district's budget.
- Education Code section 42130 requires the Superintendent to submit two reports to the Board of Education during each fiscal year. The first report shall cover the financial and budgetary status of the district for the period ending October 31st. All reports required shall be in a format or on forms prescribed by the Superintendent of Public Instruction.
- Education Code section 42131 requires the Board of Education to certify, in writing, whether the district is able to meet its financial obligations for the remainder of the fiscal year and, based on current forecasts, for the subsequent two fiscal years. Certifications shall be based on the Board's assessment of the district budget. Certifications shall be classified as positive, qualified or negative. This education code section also outlines the role of the County Office of Education.
- Education Code section 42131 (3)(e) directs districts to provide additional reports to the County Office of Education as of June 1st, if a Qualified or Negative Certification is reported as of the Second Interim Report.



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III. Budget:

LCFF Revenue Changes from 2019-20 Second Interim

LCFF Revenue Changes from 2019-20 2nd Interim	2020-2021	2021-2022
Best Case Scenario LCFF 0% COLA	(9,200,000)	(20,300,000)
-2% COLA in 20-21 & 0% in 21-22	(17,300,000)	(28,300,000)
-10% COLA in 20-21 & 0% in 21-22	(49,600,000)	(60,300,000)

Projected Cash Balances

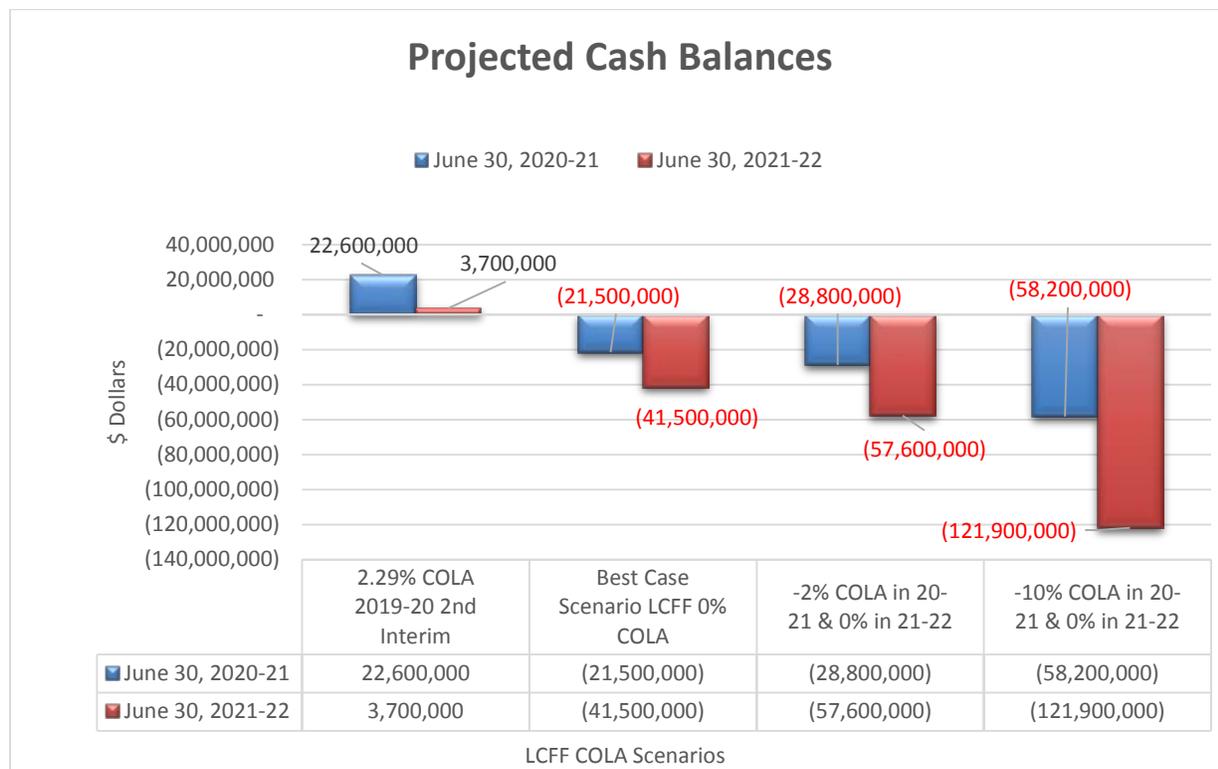
Projected Cash Balances as of	June 30, 2020-21	June 30, 2021-22
As of 2019-20 2nd Interim	22,600,000	3,700,000
Best Case Scenario LCFF 0% COLA	(21,500,000)	(41,500,000)
-2% COLA in 20-21 & 0% in 21-22	(28,800,000)	(57,600,000)
-10% COLA in 20-21 & 0% in 21-22	(58,200,000)	(121,900,000)

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Additional Considerations

1. Districts have been advised to plan for the following revenue deferrals and reductions.
 - a. Deferral of the June 2020 apportionment representing a shift of \$27M in cash from 2019-20 to 2020-21.
 - b. Special Education funding increases for AB 602 and preschool included in the Governor's January Budget Proposal will not be funded. This represents a loss of approximately \$6M in revenue.
 - c. A projected reduction in the 2020-21 Lottery allocation of approximately 15%, this represents a loss of \$1.2M and most likely for the 4th quarter of 2019-20 representing a loss of approximately \$250K.
2. Expenditures
 - a. An increase in the cost of health benefits of approximately 12% representing \$5M effective July 1, 2020. As of 2019-20 2nd Interim, the District projected an increase of approximately \$2M.
 - b. One-time savings in utilities and supplies for period of March through June 30, 2020 approximately \$370K.

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COVID-19 Related Expenditures and Funding Opportunities

The District has incurred approximately \$6M in COVID-19 related expenses as of April 2020. There are numerous other expenses that have yet to be determined some of which include ongoing supplies for disinfecting, cleaning, protective equipment, food, and distance learning. The district is also expected to receive approximately \$660K in State Relief funds and \$16M in Federal funds (CARES) for COVID-19 related expenses.

IV. Goals, Objectives and Measures:

Continue to provide information to the Board and the public including required reporting periods such as First, Second and Third Interim reports.

Follow the timeline, identify all budget cuts and savings, take action to implement such savings as required by law, District policy, and applicable bargaining agreements.

V. Major Initiatives:

Continued analysis of information from the State and its impact on District finances.

VI. Results:

The District must implement a budget solution and avoid a State take over.

VII. Lessons Learned/Next Steps:

- Continue to monitor the State budget and its impact on District finances.
- Continue to obtain stakeholders' input, follow the LCAP process and meet with bargaining units to seek cost reductions and long-term budget savings.
- The District's 2019-20 Third Interim Financial Report will include additional information and any new updates available.
- Districts have been informed that both the May Revised and the State's June Adopted Budget may not have definitive details regarding K12 funding. Further FCMAT has stated that funding levels may not be determined until the fall of 2020. Therefore, Districts may need to implement mid-year budget changes requiring a re-adopted budget.