Leading up to the May Revision, Governor Gavin Newsom announced that the state was facing a $100 billion surplus, dubbed the “California Comeback Plan”

- $76 billion from extra state revenues and $25 billion from federal resources
- The forecasted $54 billion deficit of one year ago is a distant memory

While California’s coffers are overrun, not all Californians’ bank accounts are experiencing the same

- California’s unemployment rate was at 8.3% in March 2021
- $12 billion of the California Comeback Plan is direct cash payments to expand the Golden State Stimulus
3 National and California Unemployment Rates

Unemployment Rates

Source: California Employment Development Department

4 California Labor Force Participation

California Labor Force Participation
March 2018–March 2021
(Seasonally Adjusted)

Source: California Labor Market Review, March 2021, California Employment Development Department (EDD)
5 California Real Estate

Median Price (Existing Single-Family Detached Homes)

Source: California Association of Realtors

6 Estimate for Personal Income Tax

Source: 2021–22 May Revision Budget Summary, page 18 and 2021-22 Governor’s Budget Summary, page 18
General Fund Budget Summary

Total available resources increase 5.54% in 2021–22, while total expenditures increase by 19.09%.

The rainy day fund reaches $16 billion, or 9.06% of revenues.

<table>
<thead>
<tr>
<th>Resources &amp; Expenses</th>
<th>2021–22 General Fund Budget Summary (in millions)</th>
</tr>
</thead>
</table>

Source: 2021–22 May Revision Budget Summary, page 12

Rainy Day Fund—Budget Stabilization Account

- The 2020 State Budget Act drew down $7.8 billion from the Budget Stabilization Account (BSA), the first time a withdrawal was made since the inception of Proposition 2 (2014).
  - This left $8.3 billion in the BSA.
- However, due to the dramatically improved revenue forecast, the May Revision proposes increases to the BSA with ending balances of:
  - $12.5 billion for 2020–21
  - $15.9 billion for 2021–22
In addition to updating the Proposition 98 minimum guarantee estimates for 2021–22, the May Revision also updates the estimates for the current and prior fiscal years, or 2020–21 and 2019–20, respectively.

In each of these fiscal years, the minimum guarantee is adjusted for a total increase over January estimates of nearly $10 billion.

<table>
<thead>
<tr>
<th></th>
<th>Governor’s Budget</th>
<th>May Revision</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019–20</td>
<td>$79.5 billion</td>
<td>$79.3 billion</td>
</tr>
<tr>
<td>2020–21</td>
<td>$82.8 billion</td>
<td>$92.8 billion</td>
</tr>
</tbody>
</table>

The growth in the minimum guarantee brings per-student revenues to $13,977—an historic high for California.
May Revision Workshop

11 Cap on District Reserves

Since the May Revision estimates that the total deposit the state is required to make into the Proposition 98 Reserve is $4.6 billion (up from $3.0 billion in January), it triggers the law that caps local school district reserves for the 2022–23 fiscal year.

- Cap on reserves is effective when the amount in the education rainy day fund is at least 3% of the K–12 share of Proposition 98.
- Local reserves in adopted or revised budget cannot exceed 10% of combined assigned and unassigned General Fund balances.
- Basic aid and districts with fewer than 2,501 average daily attendance (ADA) are exempt from the cap.

12 2021–22 LCFF Funding Factors

The May Revision increases the cost-of-living adjustment (COLA) which is applied to the Local Control Funding Formula (LCFF) base grants for each grade span:

- Two grade span adjustments (GSAs) are applied as percentage increases to the base grants.
- Supplemental and concentration (S/C) grants are calculated based on the percentage—unduplicated pupil percentage (UPP)—of a local educational agency’s (LEA’s) enrolled students who are:
  - English learners
  - Free or reduced-price meal program eligible students
  - Foster youth

- Grades K–3 Increase for smaller average class sizes:
  - 10.4%
- Grades 9–12 Increase in recognition of the costs of career technical education coursework:
  - 2.6%
- "Mega" COLA for LCFF:
  - 5.07%
### 2021–22 LCFF Funding Factors

<table>
<thead>
<tr>
<th>Grade Span</th>
<th>K–3</th>
<th>4–6</th>
<th>7–8</th>
<th>9–12</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020–21 Base Grant per ADA</td>
<td>$7,702</td>
<td>$7,818</td>
<td>$8,050</td>
<td>$9,329</td>
</tr>
<tr>
<td>5.07% Mega COLA</td>
<td>$390</td>
<td>$396</td>
<td>$408</td>
<td>$473</td>
</tr>
<tr>
<td>2021–22 Base Grant per ADA</td>
<td>$8,092</td>
<td>$8,214</td>
<td>$8,458</td>
<td>$9,802</td>
</tr>
<tr>
<td>GSA</td>
<td>$842</td>
<td>–</td>
<td>–</td>
<td>$255</td>
</tr>
<tr>
<td>2021–22 Adjusted Base Grant per ADA</td>
<td>$8,934</td>
<td>$8,214</td>
<td>$8,458</td>
<td>$10,057</td>
</tr>
<tr>
<td>20% Supplemental Grant per ADA (Total UPP)</td>
<td>$1,787</td>
<td>$1,643</td>
<td>$1,692</td>
<td>$2,011</td>
</tr>
<tr>
<td>50% Concentration Grant per ADA (UPP Above 55%)</td>
<td>$4,467</td>
<td>$4,107</td>
<td>$4,229</td>
<td>$5,029</td>
</tr>
</tbody>
</table>

### Cash Flow and Deferrals

- The proposed pay down eliminates the ongoing deferrals scheduled for February through May 2022.
- It does not impact current deferrals.
  - In other words, it will not accelerate repayment of February through June 2021 deferrals that will be received in July through November 2021.
- The June to July deferral once again encompasses the full apportionment, though only $2.6 billion is scored for State Budget purposes.
The pandemic impacted learning in many ways, but perhaps the starkest example is the loss of K–12 students in 2020–21.

Based on state-certified data, the state’s K–12 student population declined by more than 160,000.

Sharp contrast to estimated loss of 20,000 to 30,000 annually.

The looming question for LEAs is how many of those students will return in 2021–22.

The good news for school districts with no “dependent” charter schools is that the hold harmless provision of the 2020–21 Enacted Budget provides a one year safe-harbor.

In 2021–22, school districts will be funded on the higher of 2019–20 ADA or 2021–22 ADA.
## Special Education

- The Governor’s May Revision proposes to apply the compounded COLA of 4.05% to special education funding, an increase compared to the statutory COLA only in the Governor’s Budget.
  - This will increase the special education base rate from $625.00 in the current year to approximately $650.31 per ADA.
  - No structural changes are proposed to the special education funding formula and the out of home care formula will continue to be frozen in 2021–22.
- At the Governor’s Budget, $300 million ongoing was proposed for the Special Education Early Intervention Grant, which would provide funding to districts based on the number of preschoolers with disabilities.
  - No significant changes were made to the proposal at the May Revision.

## Targeted Intervention Grant

$2.6 billion for a new grant to supplement the Expanded Learning Opportunities Grant

- Allocated in proportion to an LEA’s LCFF entitlement.
- Shall be used for any purpose that supports targeted and research-tested academic interventions.
- Uses one-time federal funds and one-time Proposition 98 funds, leading to different deadlines for use of the funds ranging from September 30, 2022, to June 30, 2024.
In-Person Instruction Health and Safety Grant

$2 billion for a new grant to supplement the In-Person Instruction Grant

- May be used for any purpose that supports health and safety in providing in-person instruction
- Allocated in proportion to an LEA's LCFF entitlement
- Shall be used from July 1, 2021, to June 30, 2023

- COVID-19 testing and vaccines
- Sanitation and cleaning
- Ventilation upgrades
- Additional space for social distancing
- Contact tracing
- Salaries for in-person instruction

Expanded Learning Opportunities Grant

- Assembly Bill 86 (Chapter 10/2021) provides $4.6 billion to LEAs to improve academic achievement by offering supplemental instruction and support to students
  - $1,000 for each homeless student
  - The rest distributed in proportion to LCFF entitlement
- Shall implement a learning recovery program that, at a minimum, provides to designated student groups:
  - Supplemental instruction
  - Support for social and emotional well-being
  - Meals and snacks
- Must use at least 85% for in-person services
- Must use at least 10% to hire paraprofessionals

Low Income
English Learners
Foster Youth
Homeless Youth
Students at Risk of Neglect/Abuse
Disengaged Students
Students Below Grade Level
Students with Disabilities
May Revision upholds that in-person instruction for the 2021–22 school year will be the default for all students and schools.

- Current distance learning statutes will expire at the end of the 2020–21 fiscal year.
- For families that remain hesitant to send their children back to school for in-person instruction, Governor Newsom affirms that these students may continue to be served outside the classroom, and LEAs will be able to generate state funding using existing traditional and course-based independent study statutes.

Essentially, only two ways to earn state apportionment funding in 2021–22:
1. Full-time in-person instruction
2. A program that relies on independent study statutes.

To ensure students that are served via a nonclassroom-based option receive high-quality instruction, the May Revision proposes additional requirements for independent study models:
- Provide access to technology, internet connectivity, and a dedicated rigorous curriculum.
- Develop and implement a framework of tiered re-engagement strategies for students not meaningfully participating in instruction and learning.
- Track and record daily student participation and interaction with teachers.

Despite these proposed changes, LEAs should feel comfortable moving forward with planning for a nonclassroom-based option—such as virtual academies—using the legal framework of independent study.
Reopening and Effect on Schools

Governor unveiled Safe Schools for All Plan that was focused on schools providing in-person instruction

California Department of Public Health updated schools’ guidance to strongly recommend at least 3 feet between student chairs, a change from the prior 4-6 feet of spacing

Distance learning statutes from 2020–21 to expire

AB 86 (Chapter 13/2021) signed into law, providing $6.6 billion for In-Person Instruction and Expanded Learning Opportunities Grants

Governor announced intent to fully reopen the state and end the Blueprint for a Safer Economy on June 15

Governor and key legislators have signaled that they do not intend to extend the distance learning statutes and expect return to full in-person instruction next school year

Expanded Learning Opportunities Grant—Allowable Uses

Integrating supports to address other barriers to learning—mental health services, school meals, before and after school programs, and programs to address pupil trauma and social-emotional learning

Staff training on strategies to engage pupils and families in addressing social-emotional health and academic needs

Additional academic services—diagnostic, progress monitoring, and benchmark assessments

Extending instructional learning time beyond minimum requirements

Accelerating progress to close learning gaps—tutoring, programs and materials designed to accelerate student academic or EL proficiency, staff training in accelerated learning strategies and effectively addressing learning gaps

Community learning hubs that provide access to technology and other academic supports

Supports for credit deficient pupils to complete graduation or grade promotion requirements, and to improve college eligibility
The May Revision proposes to achieve universal transitional kindergarten for all four-year-olds by 2024–25 with a permanent increase to Proposition 98, equaling $900 million in 2022–23 and increasing to $2.7 billion in 2024–25.

The proposal also includes cutting classroom ratios by half with an investment that grows from $380 million in 2022–23 to $740 million by 2024–25.

Expand TK eligibility for four-year-olds whose fifth birthday occurs between September 2 and March 2.

Expand TK eligibility to four-year-olds whose fifth birthday occurs between September 2 and June 2.

Expand TK eligibility to four-year-olds whose fifth birthday occurs between September 2 and September 1 of the following calendar year.

Additionally, $100 million in one-time funding is proposed to provide school kitchen infrastructure upgrades and training for school cafeteria staff.

- $80 million for kitchen infrastructure upgrades to increase student access to school means improve the quality of the meals.
  - Funds will be distributed as follows:
    - Base allocation of $25,000 per ADA
    - After the base allocations are made, remaining funds will be provided to LEAs with at least 50% students eligible for free or reduced-price meals.
  - Funds can be used for cooking and service equipment, refrigeration and storage, and transportation means for food and food products.
  - LEAs will be required to report to CDE by June 30, 2022, how the funds were used to improve the quality of school meals or increase participation in the meal program.
Federal School Meal Waiver Extension

- U.S. Department of Agriculture granted another waiver extending the allowance for children to continue to receive free meals through the Seamless Summer Option through June 30, 2022
  - Previously sunset on June 30, 2021
  - Reimbursements are at the increased Summer Food Service Program rates
  - Extension applies to several waivers including for serving free meals via the summer meal programs, permits service outside normally required settings and times, waiver of meal pattern requirements, and allows parents and guardians to pickup their children’s meals
  - After school snacks provided through the National School Lunch Program may be claimed at the free rate
  - Creates UPP hardship
    - Districts need to start planning now for how to substantiate UPP

Multiyear Projections

- Result of mathematical calculations for future years based on the following:
  - Decisions that have already been made
  - A series of assumptions using current information
- Predictions or forecasts
- Crystal balls
- Measuring sticks for how “wrong” you were
29 CalPERS Employer Contribution Rates

The California Public Employees’ Retirement System (CalPERS) Board adopted an employer contribution rate of 22.91% for 2021–22, 2.21% higher than the current-year rate of 20.70%.

Post-PEPRA* members hired on or after January 1, 2013, will continue to contribute 7.00% into 2021–22.

Classic member contribution rates are not subject to PEPRA and are set by statute—they will continue to contribute 7.00% of their salary.

*Public Employees’ Pension Reform Act (PEPRA)

<table>
<thead>
<tr>
<th>Year</th>
<th>Previously Released Employer Contribution Rate</th>
<th>New Projected Employer Contribution Rate*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021–22</td>
<td>23.00%</td>
<td>22.91%*</td>
</tr>
<tr>
<td>2022–23</td>
<td>26.30%</td>
<td>26.10%</td>
</tr>
<tr>
<td>2023–24</td>
<td>27.30%</td>
<td>27.10%</td>
</tr>
<tr>
<td>2024–25</td>
<td>27.80%</td>
<td>27.70%</td>
</tr>
<tr>
<td>2025–26</td>
<td>27.80%</td>
<td>27.80%</td>
</tr>
<tr>
<td>2026–27</td>
<td>27.60%</td>
<td>27.60%</td>
</tr>
</tbody>
</table>

*2021–22 rate approved by CalPERS Board on April 19, 2021
Note: All other rates beginning in 2022–23 through 2026–27 are projected rates

30 CalSTRS Employer Contribution Rates

Beginning in 2021–22, the CalSTRS Board has limited authority to increase or decrease rates by a maximum of 1% annually—not to exceed 20.25% of creditable compensation.

The CalSTRS Board is set to exercise its new rate-setting authority in an action at its June 2021 meeting.

SSC recommends that LEAs anticipate a CalSTRS employer contribution rate of 16.92% in 2021–22 based on the best information available to date from CalSTRS.

An increase compared to what LEAs are currently expecting in 2021–22 at 15.92%.

<table>
<thead>
<tr>
<th>Year</th>
<th>Previously Released Employer Contribution Rate</th>
<th>New Projected Employer Contribution Rate*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021–22</td>
<td>15.92%</td>
<td>16.92%*</td>
</tr>
<tr>
<td>2022–23</td>
<td>18.00%</td>
<td>19.10%</td>
</tr>
<tr>
<td>2023–24</td>
<td>18.00%</td>
<td>19.10%</td>
</tr>
<tr>
<td>2024–25</td>
<td>18.00%</td>
<td>19.10%</td>
</tr>
</tbody>
</table>

*2021–22 to be approved by CalSTRS Board on June 10, 2021
Note: All other rates beginning in 2022–23 through 2024–25 are projected rates
31 Multyear Projections

Per-ADA Growth in Revenues and Expenditures

- Base Growth
- SC Growth
- STRS Rate Increase
- PERS Rate Increase
- UI Rate Increase
- Special Education Contribution

LCFF Growth Revenues:
- 0% COLA
- 5.07% Mega COLA
- 2.48% COLA
- 3.11% COLA

Expenditures:
- 2020–21
- 2021–22
- 2022–23
- 2023–24

Unemployment Insurance

32 Statewide Average Reserve Levels

The latest statewide data available on school district reserves is from 2019–20

2019–20 Average Unrestricted General Fund, Plus Fund 17; Ending Balances

<table>
<thead>
<tr>
<th>District Type</th>
<th>Ending Balances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unified School Districts</td>
<td>18.82%</td>
</tr>
<tr>
<td>Elementary School Districts</td>
<td>22.70%</td>
</tr>
<tr>
<td>High School Districts</td>
<td>17.34%</td>
</tr>
</tbody>
</table>

1As a percentage of total General Fund expenditures, transfers, and other uses

The rise in ending balances is emblematic of the slowdown in new, ongoing revenues apportioned through the LCFF in 2020–21

- LEAs also had temporary spending freezes as a result of an immediate and complete shutdown of in-person instruction
The Road Ahead

- Certainly, the May Revision gives education reason to celebrate
  - Proposition 98 is on fire
  - One-time investments are rich and plentiful
  - Scarcity is not a problem

- But this is an aggressive budget with billions more in ongoing obligations, and we are approaching a blind corner
  - The minimum guarantee is not guaranteed in Test 1 years, meaning the next year does not build from the previous
  - The threat of inflation is real, which can cause a sharp turn in the economy if unmitigated
  - Wall Street’s action will be key to state revenues
  - California’s general fund is over-reliant on the income and capital gains of high-income earners, which is volatile

Political Factors and the Education Budget

- Even though the May Revision is flush with education funds, reconciling the different priorities between Governor Newsom, the Assembly, and the Senate may not be easy

<table>
<thead>
<tr>
<th>Governor</th>
<th>Senate</th>
<th>Assembly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accelerated learning programs and cocurricular supports</td>
<td>Debt-free college</td>
<td>In-person instruction</td>
</tr>
<tr>
<td>Opportunity gateways</td>
<td>Restore, build, and strengthen child care</td>
<td>College readiness and expanded college access</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Debt-free college</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Restore, build, and strengthen child care</td>
</tr>
</tbody>
</table>
Final Thoughts

With state and federal revenues combined to provide over $121 billion for K–12 education, the May Revision stirs both feelings of euphoria and anxiety.

- Collectively grateful that we are not facing the cuts we were looking at just a year ago
- Grateful to have the resources necessary to serve our students with high-quality programs and justly compensate our staff, who have done yeoman’s work during a difficult year
- Trepidatious about navigating the multitude of the different programs tied to state and federal funding while avoiding audit tripwires—it is becoming increasingly apparent that the days of subsidiarity may be behind us
- Trying to figure out how to build and sustain fiscal resilience, particularly when soon our reserves will be capped

We at SSC stand in admiration of all of you for confronting and overcoming the most difficult moment in education history to serve your students. You have redefined what “with great power comes great responsibility” means by demonstrating that when charged with a duty, you act for the good of others. Thank you.