

2020-2021 Budget Workshop

BOARD OF TRUSTEES

JUNE 17, 2020

Overview

2

- ▶ Economic Information
- ▶ State Budget
 - ▶ Governor and Legislature disagree on approach
- ▶ District Focus

Economy

- ▶ Stay at home orders related to COVID-19 have had a major impact on the state's economy
- ▶ While the precise duration of the problem is hard to quantify, negative effects will linger for years
- ▶ In May, Governor Newsom provided an update on the state's fiscal situation

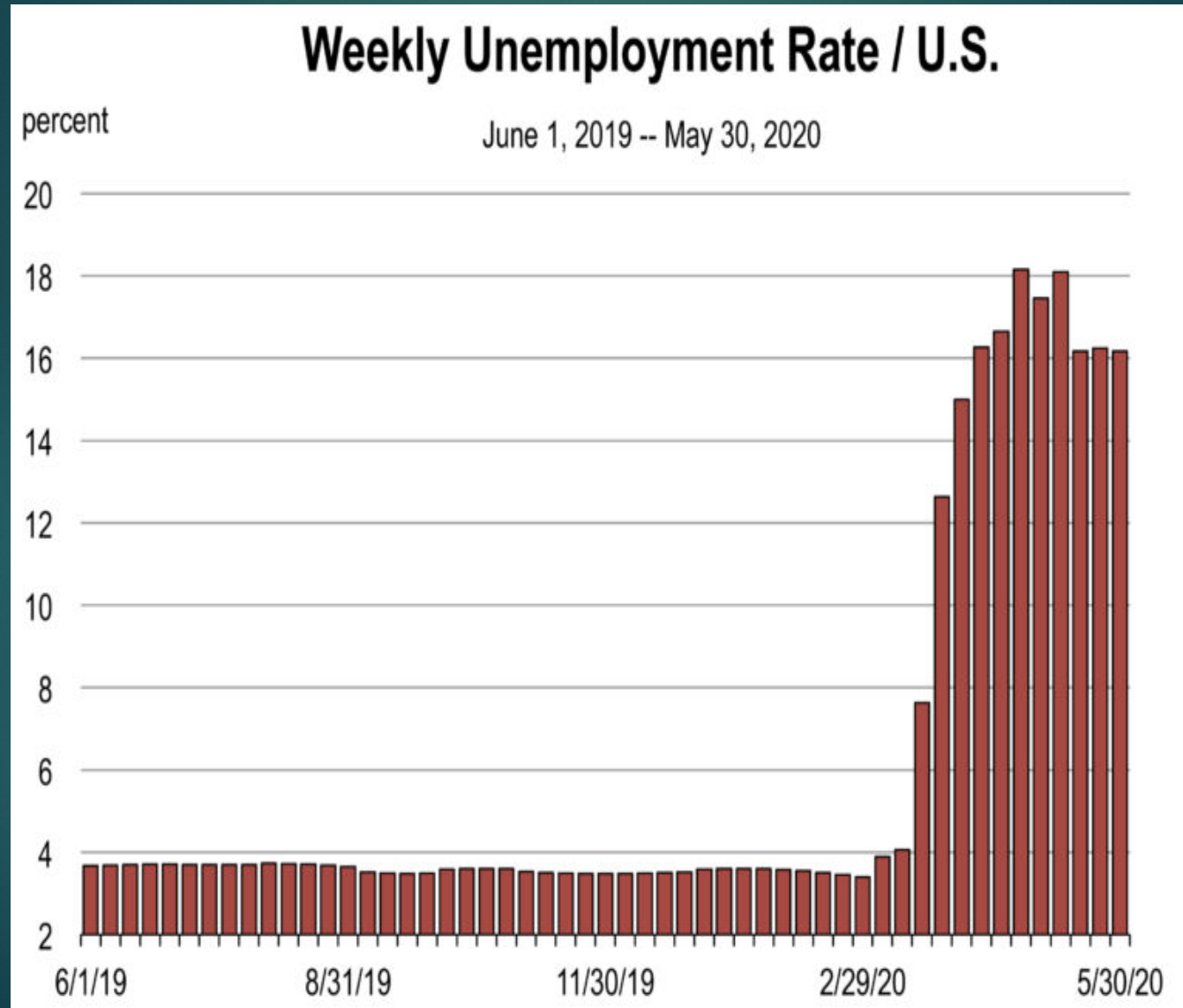
Economy

4

- ▶ Growth
 - ▶ Expected decline of over 5% for 2020
 - ▶ 2nd Quarter should be the bottom
 - ▶ A 2nd wave of the virus could affect projections
- ▶ Unemployment Rate
 - ▶ In February – 3.5%
 - ▶ April – 15.5%
 - ▶ May peak at 24.5%

Unemployment

5



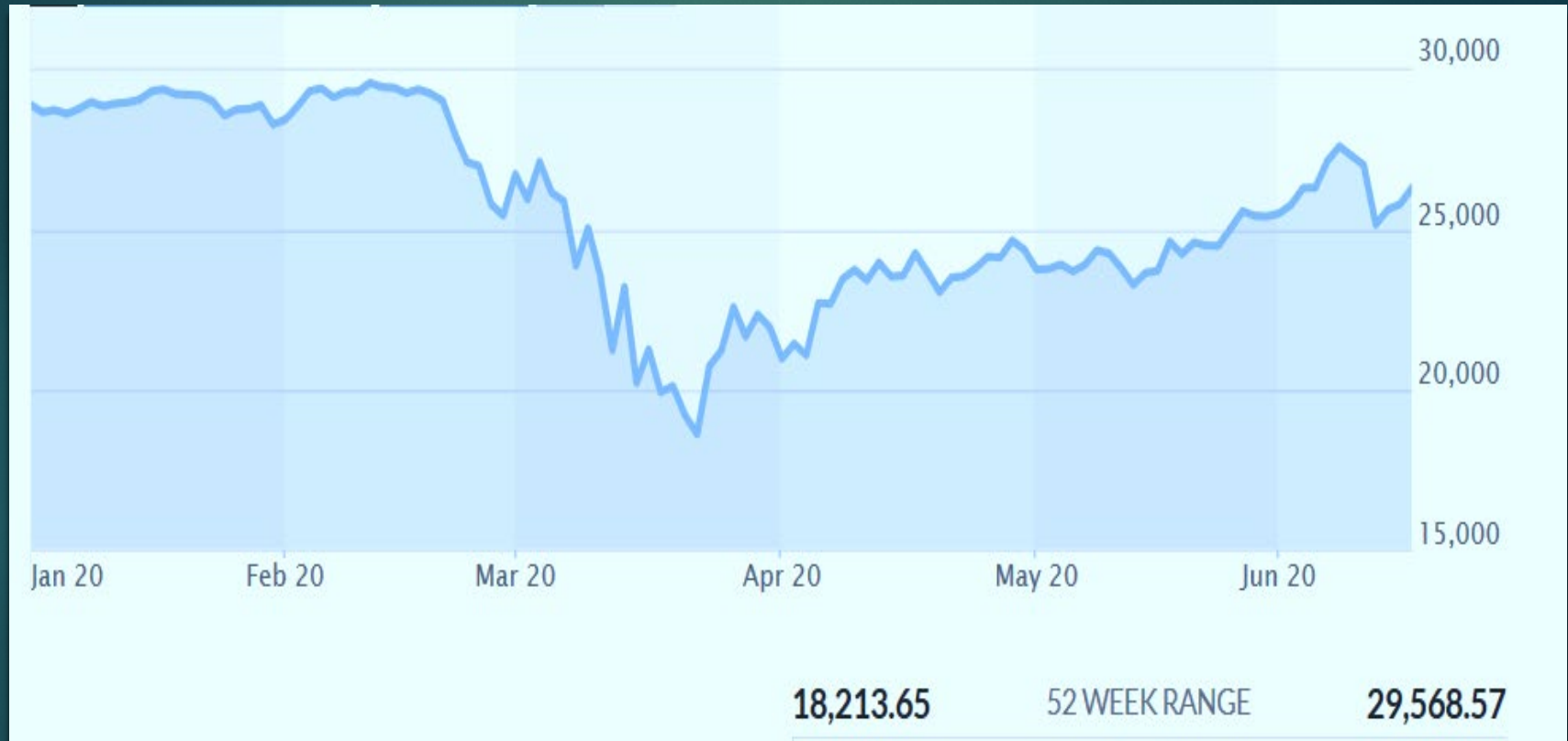
Economy

6

- ▶ Personal Income
 - ▶ Declined 9% in 2020
 - ▶ Won't fully recover until 2023
- ▶ All state revenues down
 - ▶ Income tax down 25.5%
 - ▶ Sales tax down 27.2%
 - ▶ Corporate tax down 22.7%

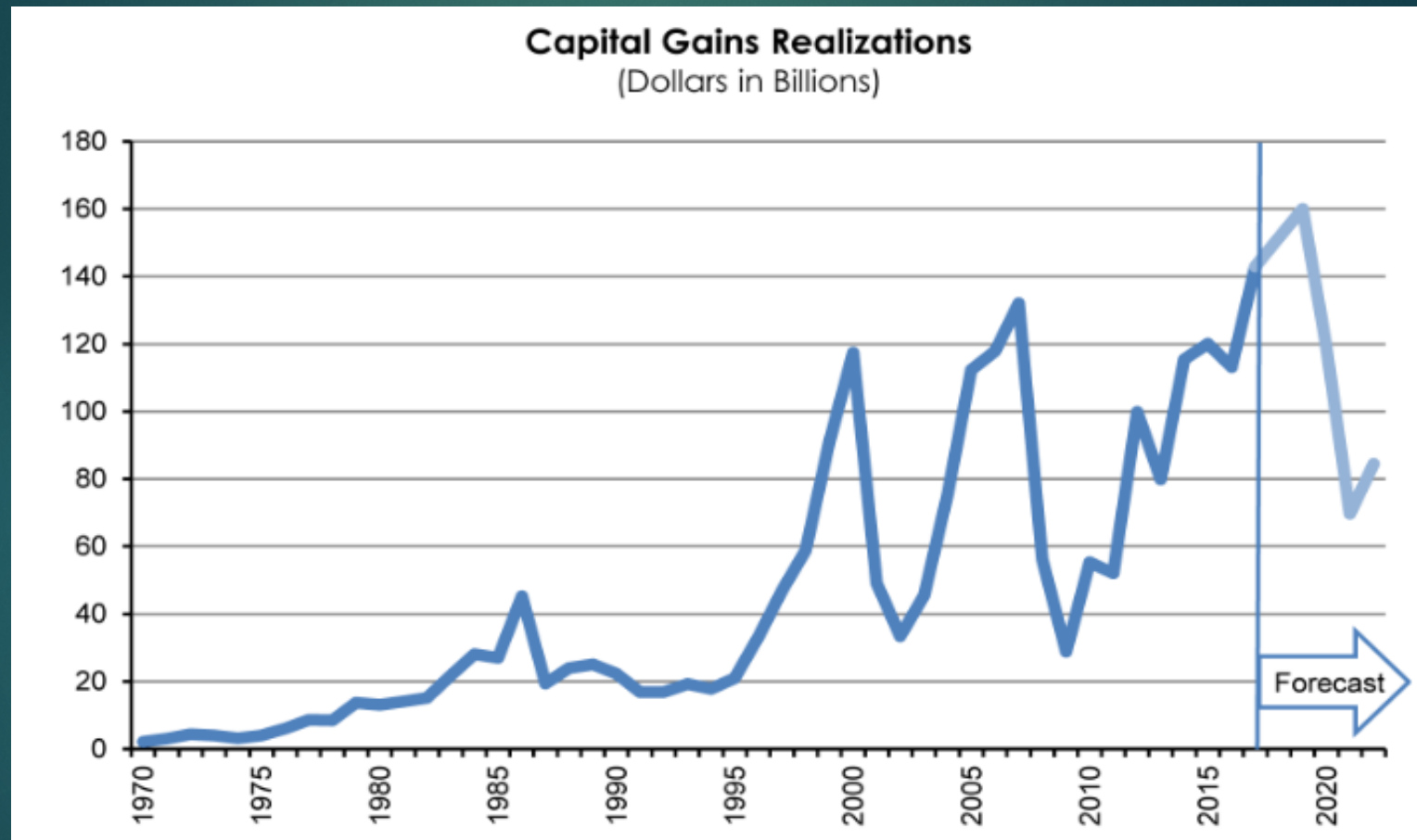
Stock Market Volatility

7



Capital Gains Volatility

8



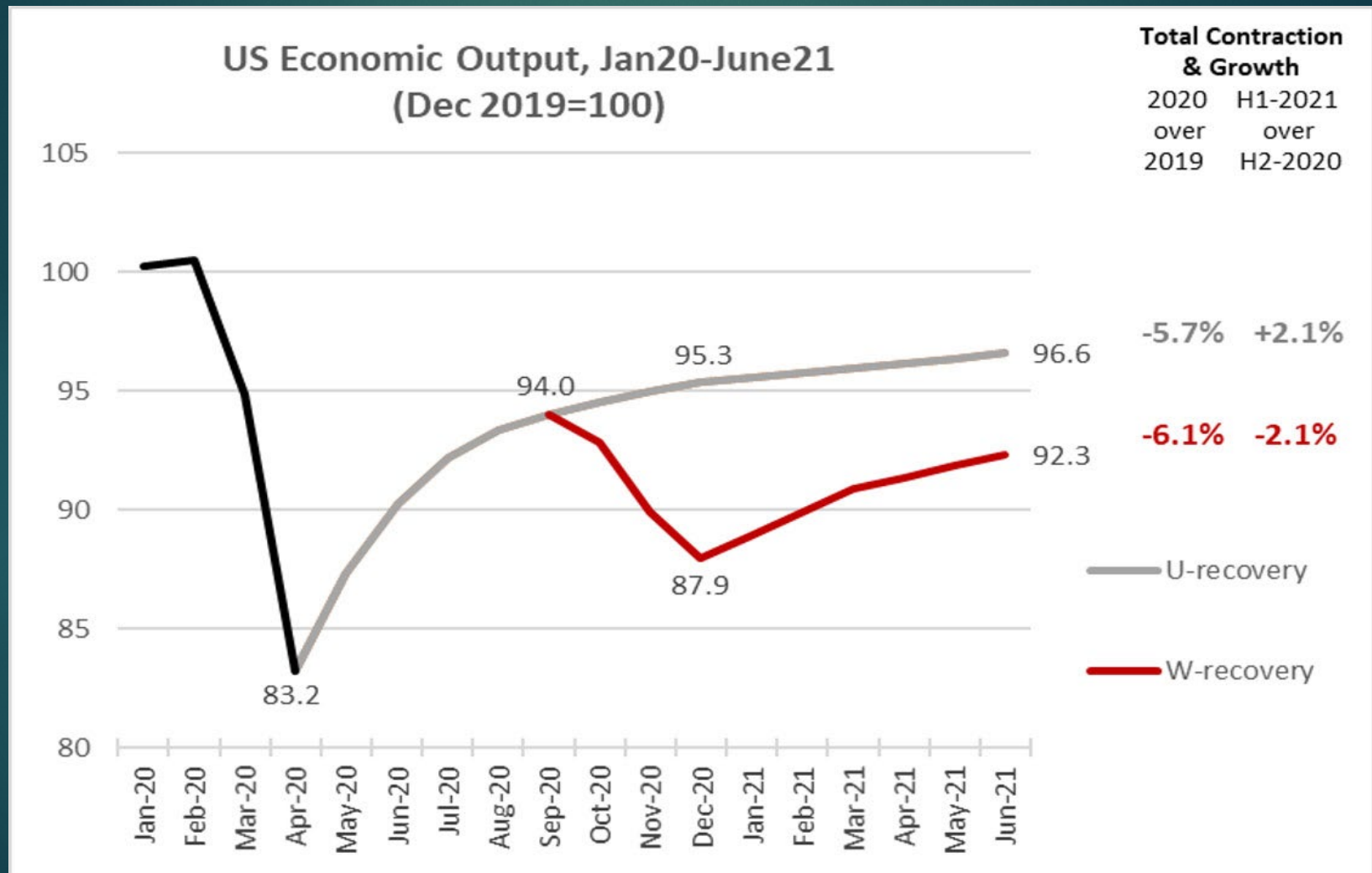
Economy

9

- ▶ Major questions:
 - ▶ Depth and extent of pandemic
 - ▶ How reliable is current information?
 - ▶ Adaptability of business
 - ▶ Shape of recovery

Recovery

10



May Revision

11

- ▶ The Governor projects a \$41 billion decline in revenues through the end of 2020-21
- ▶ Combined with anticipated increases in health and other pandemic-related costs, the result is a projected budget shortfall of \$54 billion relative to the Governor's January budget proposal.

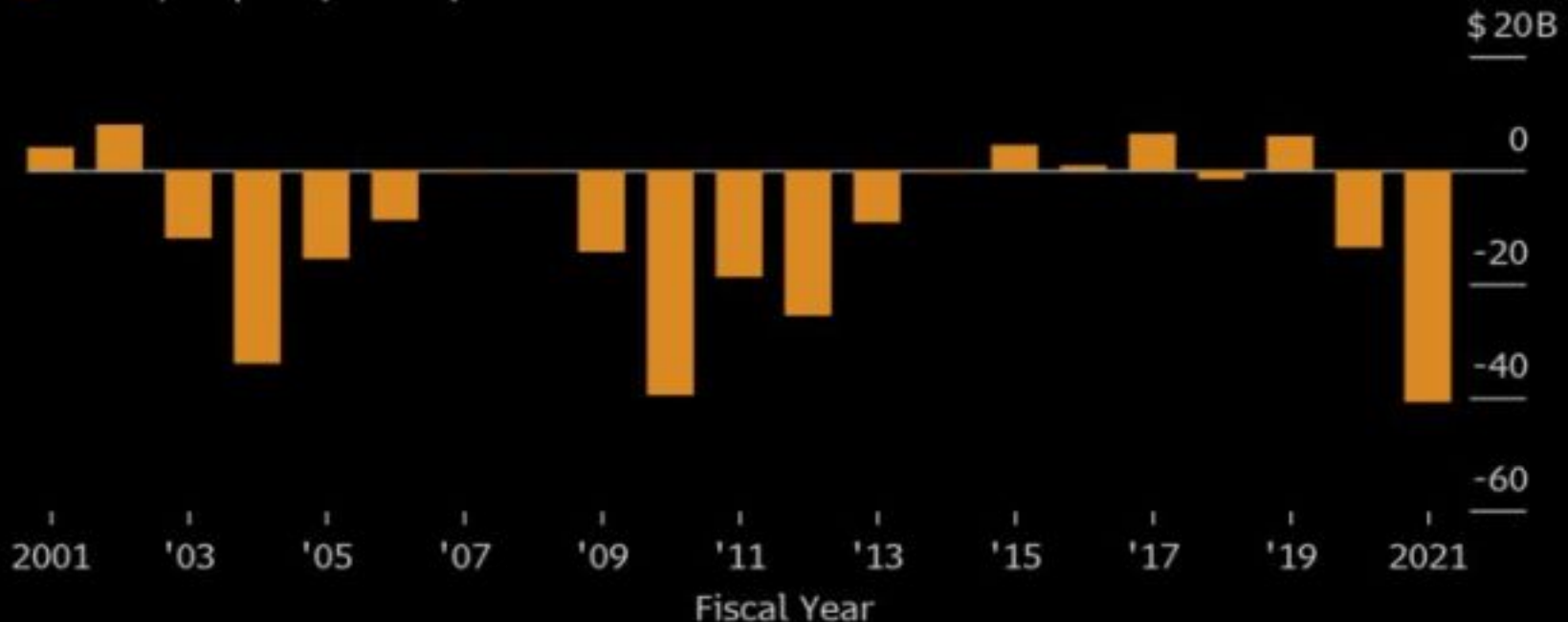
State Budget History

12

California Swings Back to Red

Golden State reels from economic hit from the virus

■ Deficit/Surplus (billions)



Source: California Department of Finance

Note: Figures from initial budget proposals each January except 2020 and 2021

Bloomberg

May Revision

13

- ▶ Funding for education is highly dependent on state revenues
- ▶ Reduced estimates of state revenues significantly reduce the Proposition 98 guarantee, which provides a minimum funding level for K14 education
- ▶ The January budget proposed \$84B for Prop 98 for 2020-21, the May Revision cuts that to \$70.5B

State Revenues

14

Long-Term Revenue Forecast — Three Largest Sources

(General Fund Revenue — Dollars in Billions)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Average Year-Over-Year Growth
Personal Income Tax	\$99.2	\$94.8	\$76.8	\$76.8	\$81.4	\$87.7	-1.9%
Sales and Use Tax	\$26.1	\$24.9	\$20.6	\$23.7	\$24.6	\$25.4	0.0%
Corporation Tax	\$14.1	\$13.9	\$16.6	\$15.9	\$16.0	\$14.9	1.6%
Total	\$139.4	\$133.6	\$114.0	\$116.4	\$122.0	\$128.0	-1.4%
Growth	6.4%	-4.2%	-14.6%	2.1%	4.8%	4.9%	

Note: Numbers may not add due to rounding.

Community Colleges

15

- ▶ Community college funding decreases \$1.5B combined over 2019-20 and 2020-21
- ▶ During the Great Recession, colleges lost about \$1.5B from 2007-08 through 2011-12

Community Colleges

16

- ▶ Reduces SCFF by 8% year over year
- ▶ Extend SCFF hold harmless provisions for an additional two years (through 2023-24)
- ▶ Proportional share of cuts to categorical program reductions for community supported (basic aid) districts
- ▶ Defers \$330.1 million from 2019–20 to 2020–21 and \$662.1 million from 2020–21 to 2021–22

Community Colleges

17

- ▶ Reduces Strong Workforce from \$248 million to \$100 million ongoing
- ▶ Reduces Student Equity and Achievement Program, Part-Time Faculty Office Hours
- ▶ No COLA
- ▶ Pension costs are mitigated

Legislative Approach

18

- ▶ Rejects upfront reductions
- ▶ Assumes Federal stimulus
- ▶ Expands programs (e.g., COLA, growth)
- ▶ Defunds Calbright
- ▶ Trigger – Deferral of \$1B into 2021-22

Budget Deal(s)?

19

- ▶ Both sides acknowledge this budget isn't final
- ▶ Working toward compromise
- ▶ Concern about multiple revisions (August? January?)
- ▶ Basic Problem – No money, but little appetite for reductions

Tentative Budget

20

- ▶ Uncertain roadmap until budget is resolved
- ▶ We will assume flat revenues for the tentative budget
- ▶ Reductions will be included
- ▶ Adjustments made for the final budget

Challenges Ahead

21

- ▶ Will the SCFF ever be implemented?
- ▶ FTES during the pandemic?
- ▶ Managing federal stimulus (if it comes)
- ▶ Basic Aid status

Budget Workshop

22

Questions?