

# 2020-2021 Budget Workshop

BOARD OF TRUSTEES

JUNE 17, 2020

# Overview

- ▶ 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

- ▶ 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

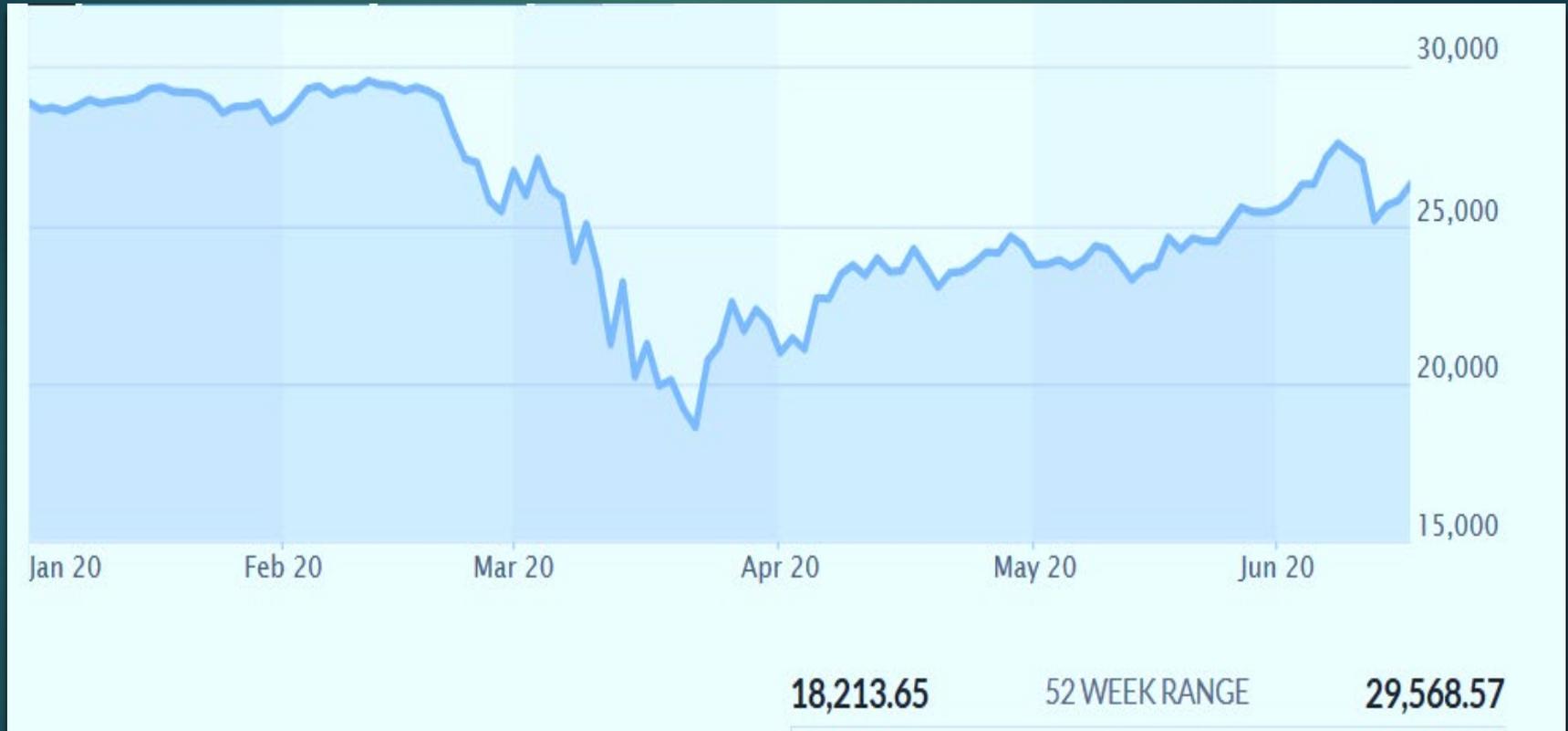


# Economy

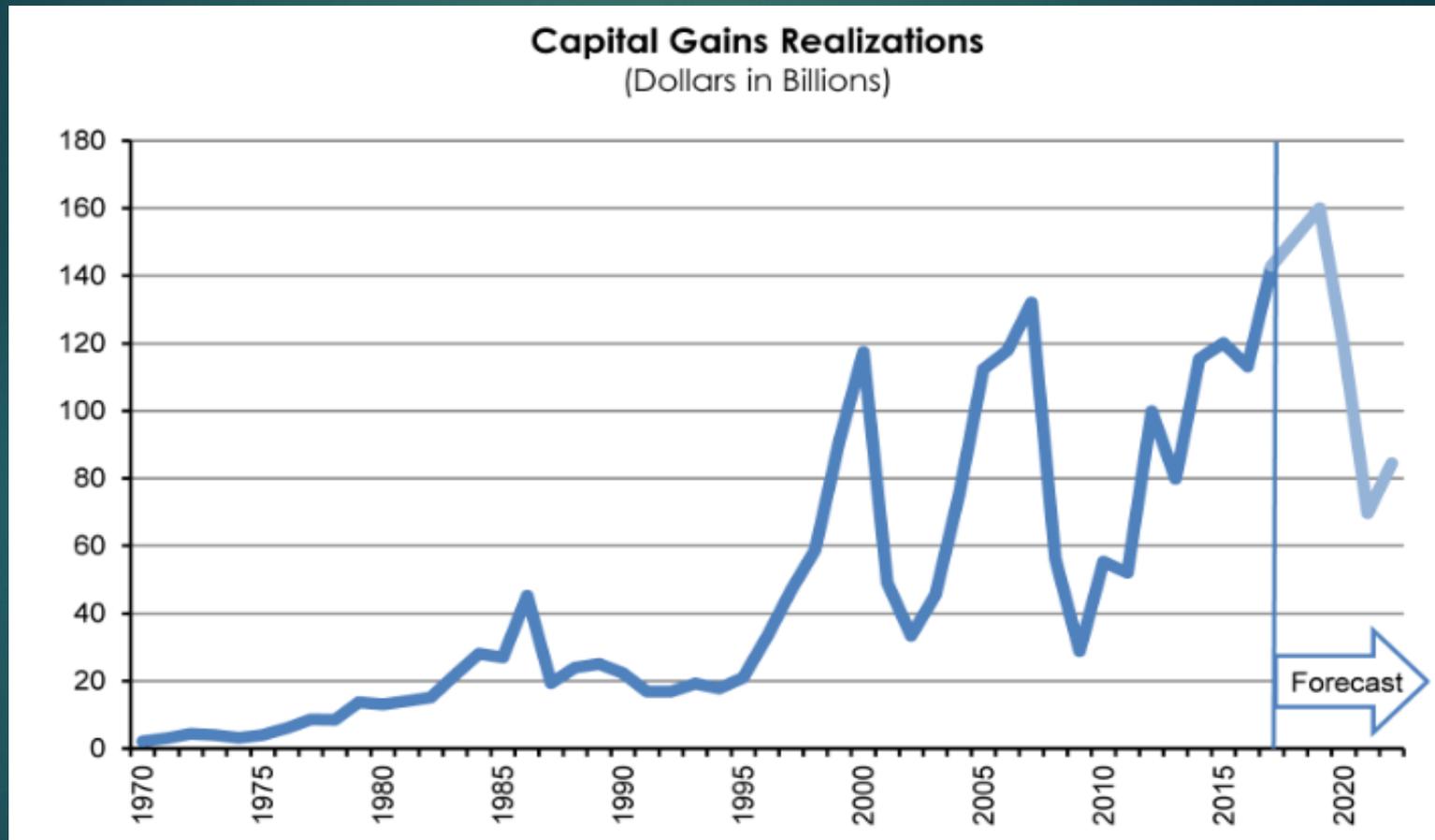
- ▶ Personal Income
  - ▶ Declined 9% in 2020
  - ▶ Won't fully recover until 2023
- ▶ All state revenues down
  - ▶ Income tax down 25.5%
  - ▶ Sales tax down 27.2%
  - ▶ Corporate tax down 22.7%

# Stock Market Volatility

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# Capital Gains Volatility

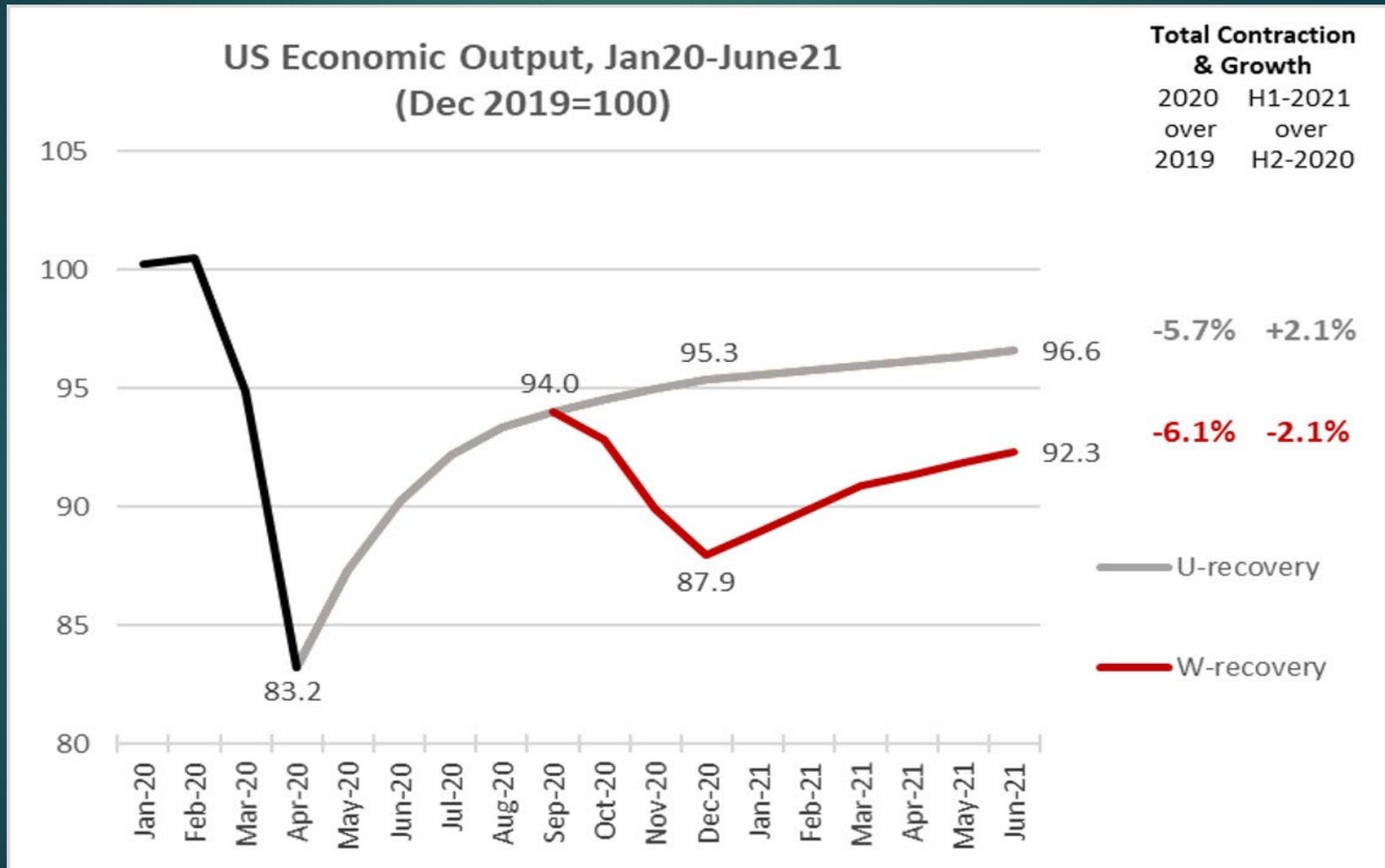


# Economy

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

# Recovery

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# May Revision

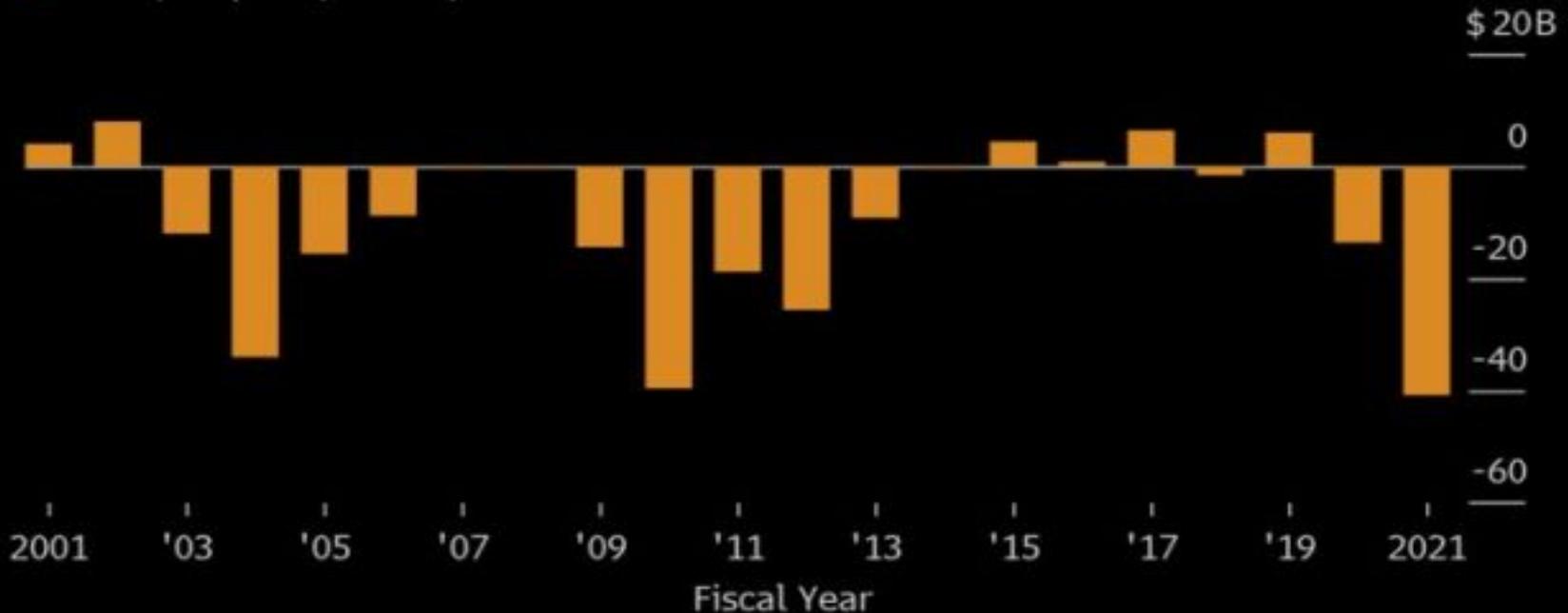
- ▶ The Governor projects a \$41 billion decline in revenues through the end of 2020-21
- ▶ Combined with anticipated increases in health and other pandemic-related costs, the result is a projected budget shortfall of \$54 billion relative to the Governor's January budget proposal.

# State Budget History

## 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

# May Revision

- ▶ 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

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## 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<br>Year-Over-Year<br>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%                                |
| <b>Total</b>        | <b>\$139.4</b> | <b>\$133.6</b> | <b>\$114.0</b> | <b>\$116.4</b> | <b>\$122.0</b> | <b>\$128.0</b> | <b>-1.4%</b>                        |
| Growth              | 6.4%           | -4.2%          | -14.6%         | 2.1%           | 4.8%           | 4.9%           |                                     |

Note: Numbers may not add due to rounding.

# Community Colleges

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- ▶ 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

- ▶ 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

- ▶ 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

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

# Budget Deal(s)?

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- ▶ 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

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- ▶ 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

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

# Budget Workshop

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Questions?