Thoughts on Fiscal Impacts on K-12 from COVID-19

May 12, 2020
Public School Revenue Sources

United States
- State: 47%
- Federal: 8%
- Property Taxes: 37%
- Other: 8%

California
- State: 58%
- Federal: 8%
- Property Taxes: 27%
- Other: 7%

Source: National Center for Education Statistics, April 2020
Big Picture Economic Impacts from COVID-19

Personal Income Tax (70% - $102B)
Sales & Use Tax (20% - $27B)
Corporate & Ins Tax (10% - $16B)

State Ops & Corrections
Health & Human Services
Higher Ed
Proposition 98 (Test 1 = 38%)

TK-12
CCD (10.9%)

$ = 2019-20 Pre-COVID-19

-$9.7B/-$32.2B
2019-20/2020-21

-$18.3B
Over two years

2010-11: $49.7B
2019-20: $81.6B
(GF: $58.3B)
(as adopted)
Income Loss Compared

Source: DOF

-50% -40% -30% -20% -10% 0% 10% 20% 30% 40%

Great Recession 2020 Forecast
How Will the State Approach P98 Gap

• Proposition 98 will be severely impacted by rapid degradation of state tax receipts
• Considerations will be both financial and political:
  • The overall size of the state revenue reductions and the resulting impact on Proposition 98 ($18.3B)
  • The size of interyear apportionment deferrals
  • The size of non-LCFF Proposition 98 program cuts (preschool, grants)
  • Relief from non-Proposition 98 funding sources such as the Budget Stabilization Account (rainy day fund) for either revenue increases or expenditure reduction
  • LCFF rate reductions – CUTS
Fiscal Realities For LEAs – Current Year

- **Revenue** – fairly stable; ADA held harmless; lottery and local down
- **Expenditures** – unplanned, extraordinary expenses are up
- **Reserves** – trending down from start of the pandemic
- **Cash** – was strong, will decline rapidly with a June apportionment deferral
- **Key takeaway** – update now
Fiscal Realities For LEAs – Budget Year

- **Revenue** – Jan 10 proposals scrapped; rapid decline in state resources; federal assistance; statutory COLA 2.31%, funded COLA ?; expect range of -5% to -10% net reduction
- **Expenditures** – continued distance learning costs; potentially significant physical distancing costs; some flexibility in regulations
- **Reserves** – need to maintain but likely trending down rapidly; they are one of the puzzle pieces
- **Cash** – will continue to decline with a June+ apportionment deferral
- **Key takeaway** – possibility of budget revisions in fall based on updated tax receipt data; LCAP delayed; big unknown is school year and configuration
Fiscal Realities For LEAs – Outyears

• Multiyear Financial Projections (MYFP) are critical.
• The effects of today’s operations and financial decisions are indelibly printed on the future.
• All decisions should be made through the added lens of the MYFP and the impact on the district’s overall financial health.
• Budget year (2020-21) will not reflect the full impact of the downward spiral.
• Depending on the amount of time in a recessionary condition (“U-” or “L-shaped” recession it is likely that 2021-22 state tax receipts and COLA calculations will be harder hit than 2020-21.
• Some thought partners see 2021-22 with additional 10%-15% reductions.

Background:
The COVID-19 pandemic has had a significant impact on the financial well-being of many communities. In response, FCMAT has developed a guide to help fiscal leaders in our region navigate the challenges presented by the pandemic.

Effective Cash Management During Uncertain Times

Background:
Effective cash management is crucial during uncertain times, especially during a pandemic. This guide provides strategies for managing cash flow, ensuring financial stability, and minimizing financial risks.

Associated Students Body (ASB)
Considerations During COVID-19

Background:
The COVID-19 pandemic has had a significant impact on all aspects of our lives, including ASB operations. This guide offers insights and considerations for ASB leaders during this time.
Cited References

- **Policy Analysis for California Education (PACE)**
  https://www.edpolicyinca.org/sites/default/files/2020-04/PACE%20COVID%20Funding%20webinar%204.28.20.pdf

- **National Center for Education Statistics (NCES)**

- **Center on Budget and Policy Priorities (CBPP)**
  https://www.cbpp.org/research/state-budget-and-tax/states-need-significantly-more-fiscal-relief-to-slow-the-emerging-deep

- **Department of Finance (DOF)**

- **Legislative Analyst’s Office (LAO)**

- **Fiscal Crisis and Management Assistance Team (FCMAT)**
  www.fcmat.org/covid-19-Resources