



# 2020-21 Preliminary Budget

**Orange County Department of Education**

**June 3, 2020**



# Economic Effects of COVID-19

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- **Eleven years of economic expansion came to a screeching halt this year**
  - ◆ **As former Governor Jerry Brown always warned us, a recession was coming, but even he could not have foreseen this**
- **No aspect of the national or state economy seems to be unscathed by the virus and the path to recovery is unknown**
  - ◆ **There are no models for how a world recovers from a near total shutdown of economies around the globe**
    - **Initial recovery projections were optimistic, but along with the number of cases of COVID-19, have become more and more grim**
- **The actual economic effects will not be known for months and years, but nonetheless, the Administration must make some assumptions as to how far California will fall and how it will make its eventual comeback**

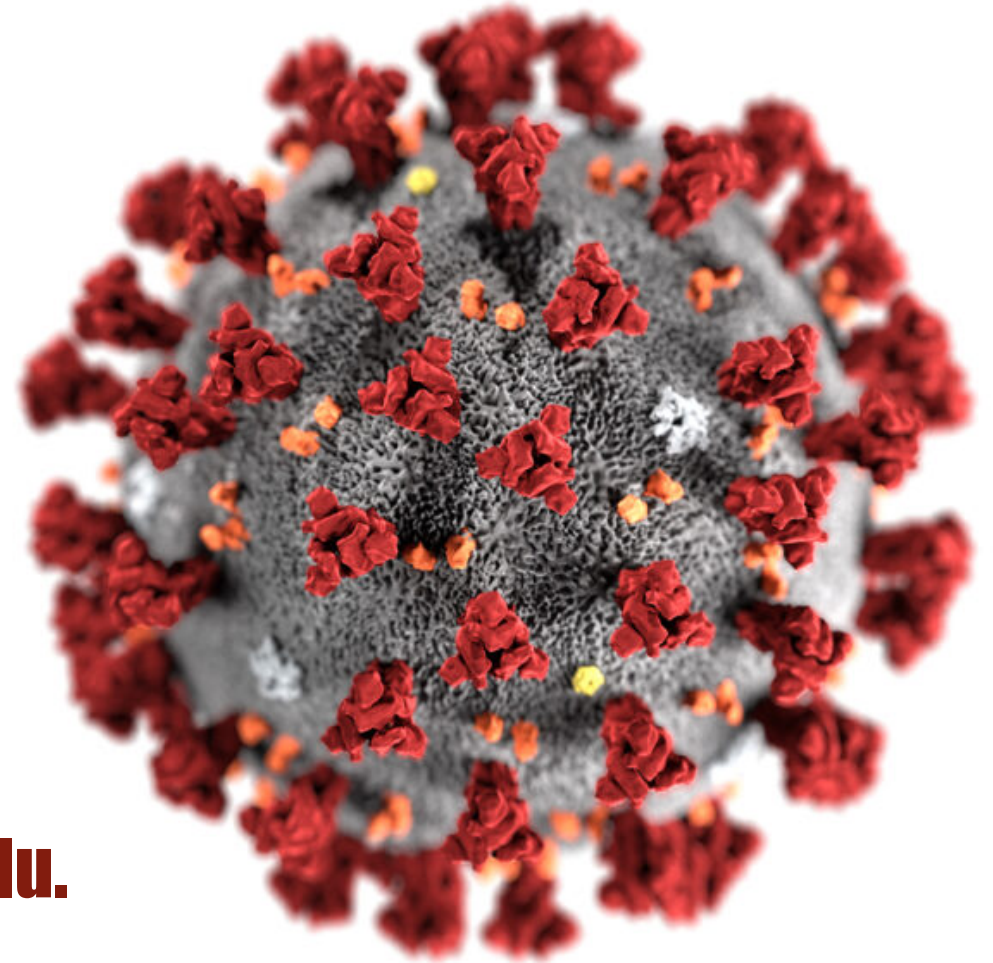


# California's Economy

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- As the nation goes, so goes California
- California ranks 5<sup>th</sup> among the world's largest economies including the United States, China, Japan, and Germany
  - ◆ This makes the state highly susceptible to national and global economic shocks
  - ◆ Given its coastal geography, the state is home to three of the largest trade ports—making California's economy reliant on international commerce



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**When the nation gets a cold, California gets the flu.**

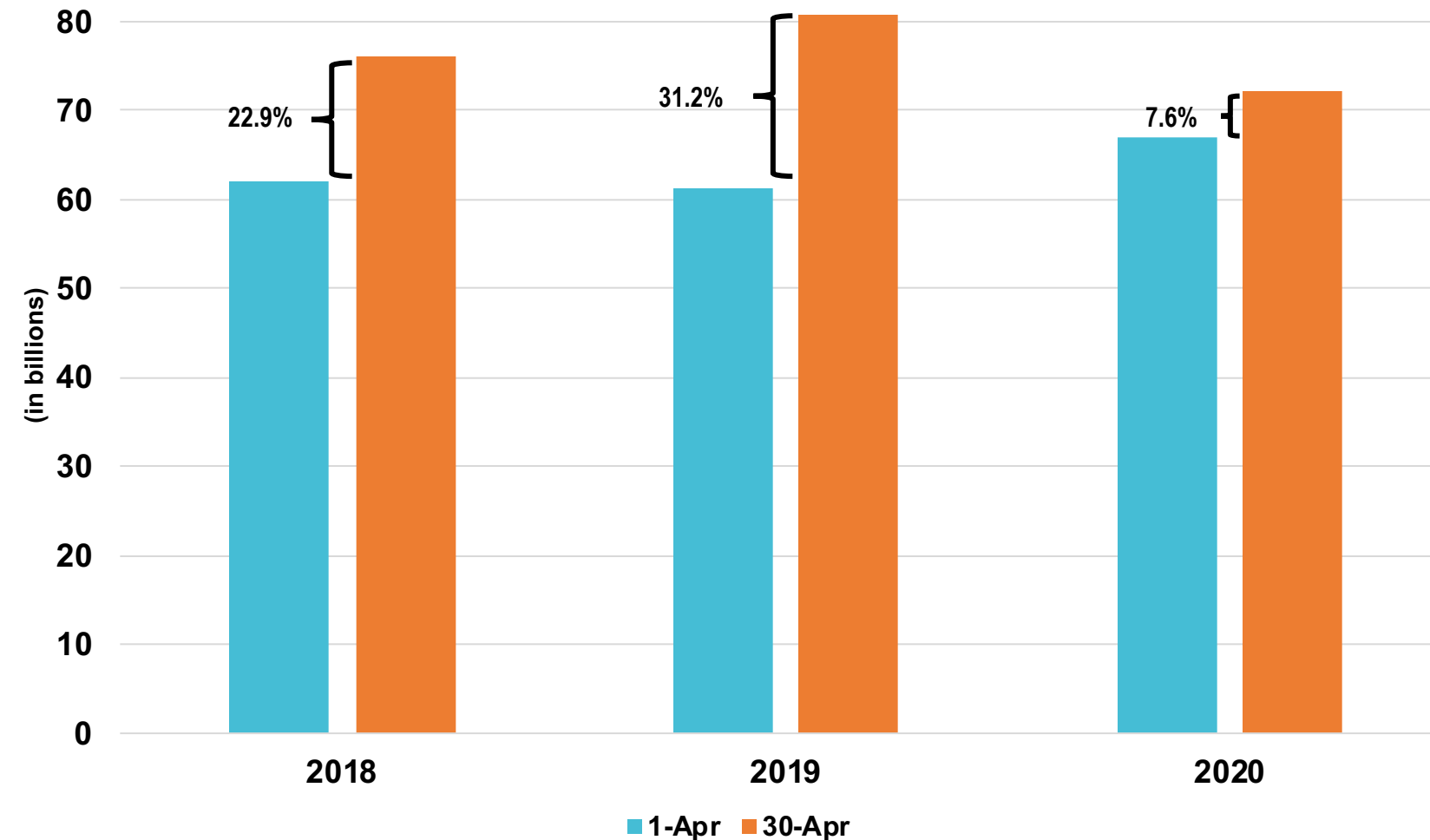
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# Impact of Shifting the Tax Deadline

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April Personal Income Tax Collections



- Both federal and state governments shifted the annual income tax deadline from April 15 to July 15 as a result of the COVID-19 outbreak
- This shift has caused a significant decline personal income tax (PIT) revenues in the biggest PIT revenue month, making it difficult to develop the state's on-time Budget
- Given recent unemployment figures, we may not fully recover the lost revenue



# California Revenues

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- The May Revision assumes that the state will suffer from a \$41.2 billion loss in revenues compared to January estimates in 2019–20 and 2020–21 combined
  - ◆ -\$9.1 billion for 2019–20
  - ◆ -\$32.2 billion for 2020–21
- Revenue losses are compounded by the growing number of Californians who need access to state safety net services, bringing the state's total shortfall to \$54 billion





# Rainy Day Fund—Budget Stabilization Account

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- **The Budget Stabilization Account (BSA) currently has about \$16.2 billion**
- **Proposition 2 (2014) stipulates that a withdrawal may not exceed half of the BSA balance in the first year of a budget emergency**
- **The May Revision proposes to draw down the entirety of the \$16.2 billion over three years**
  - ◆ **This includes \$7.8 billion for 2020–21**



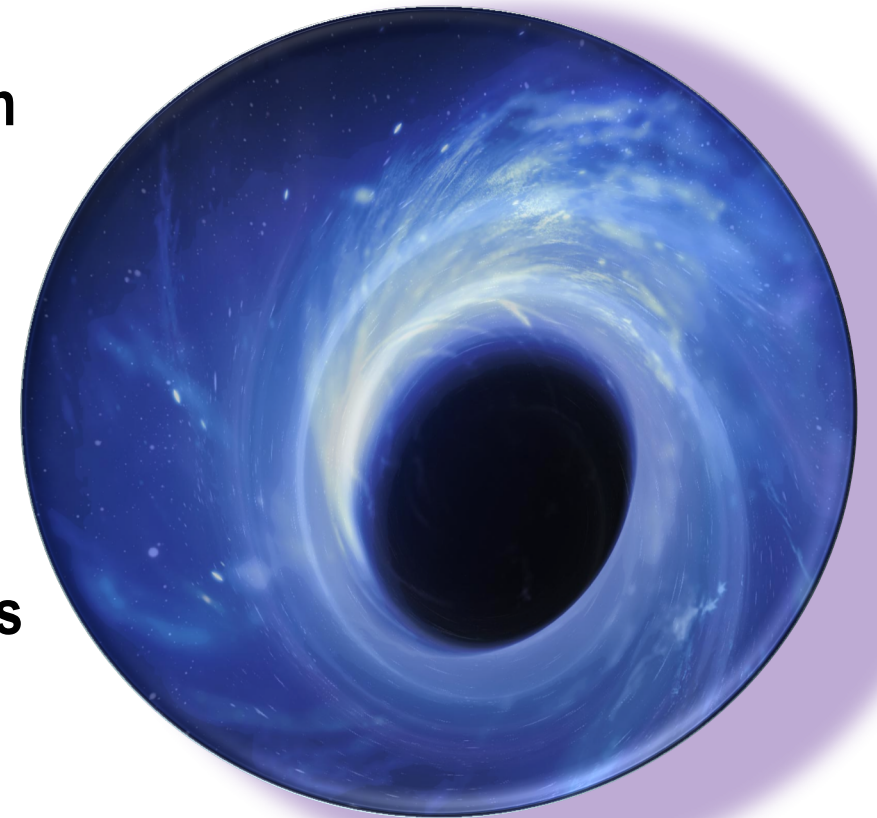


# Will There Be a Revised Budget?

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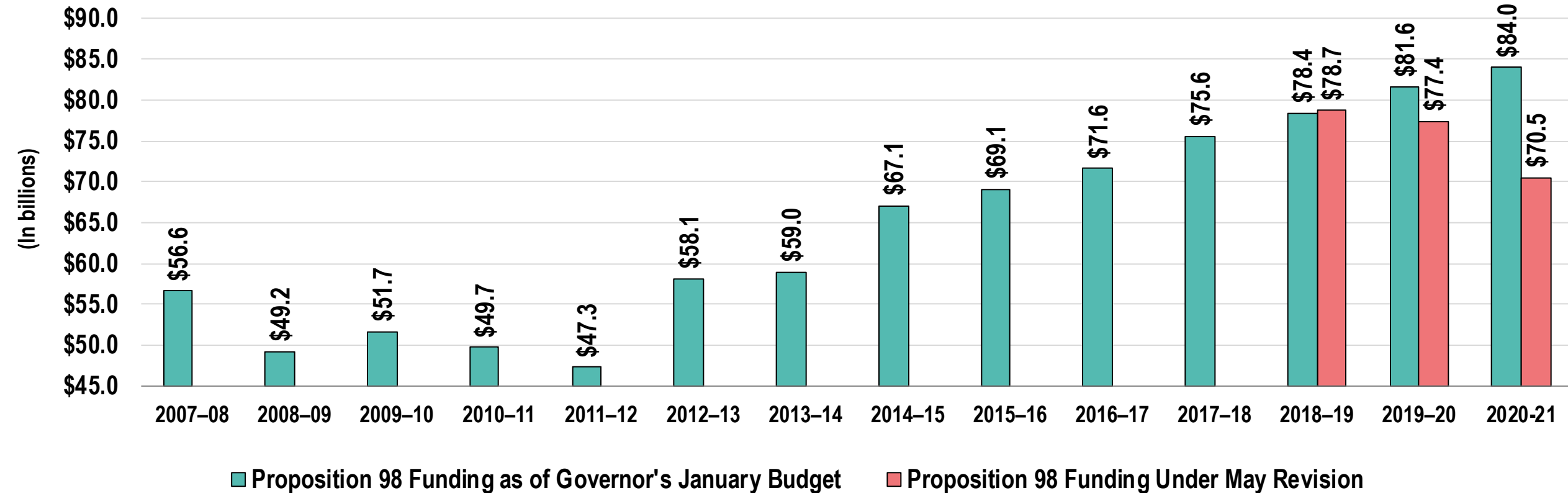
- While the May Revision gives us important anchors for state and local budgets that must be adopted by July 1, 2020, there continues to be a gaping hole of information that we need in order to build more accurate budgets
  - ◆ Unemployment rates change
  - ◆ PIT revenue is the largest share of general fund revenue; tax payments deferred
  - ◆ Consumer confidence shaken by the current state of the economy; may be a while before confidence rebuilds
  - ◆ Small, as well as large, businesses may not be able to withstand COVID-19
- The state will likely need to revise its Budget when more information becomes available later this summer





# Proposition 98 Funding

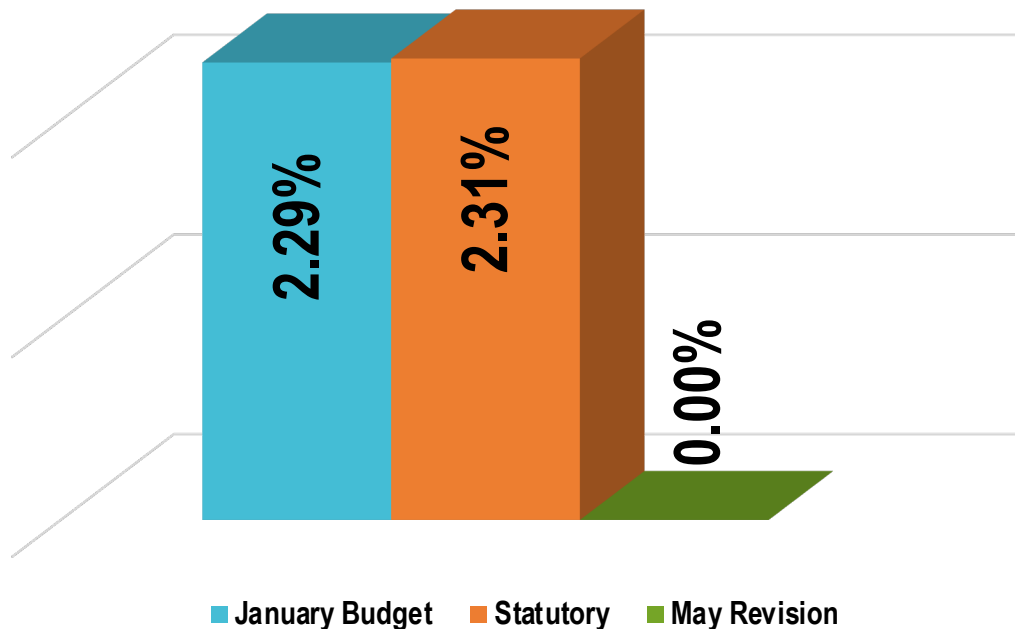
## Proposition 98 Funding 2007–08 to 2020–21



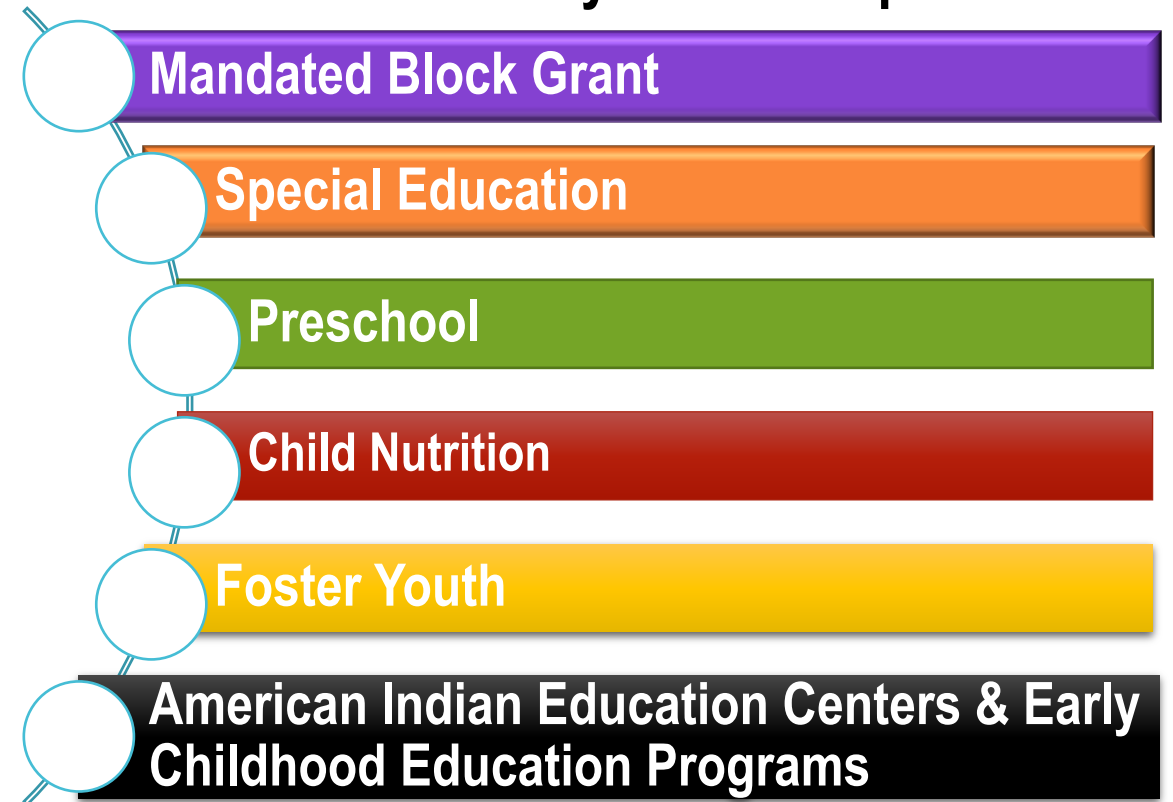


# Statutory COLA

- While the May Revision acknowledges a 2.31% statutory cost-of-living adjustment (COLA) (up slightly from the 2.29% estimated COLA in January), it suspends the COLA for 2020–21



- Categorical programs outside of the LCFF will also have the statutory COLA suspended



In typical years, as costs continue to rise, these programs would see adjustments for COLA only and average daily attendance (ADA) for special education

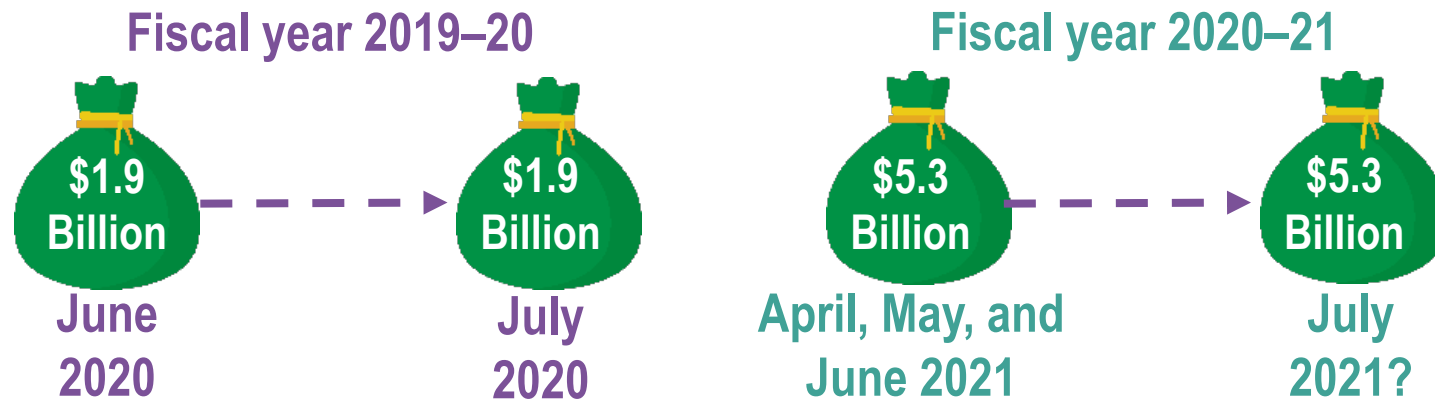


# Deferrals: Here We Go Again

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- Cash deferrals were used during the Great Recession to implement state-level budget cuts and/or improve the state's cash position
- The Governor's May Revision takes a page from the same playbook and proposes the following cash deferrals:



- Local school agencies may need to implement local borrowing options to ensure adequate cash to continue paying employees and vendors during these times
  - ◆ While this avoids an additional cut in state revenues to schools, it pushes the administrative and financial burden of borrowing cash to local school agencies

**Base Rates increased to \$645 per ADA based on three-year rolling average ADA**



- Reflects a 15% increase over the amount provided in 2019–20 budget

- Reflects suspension of 2.31% COLA

- Maintains all other existing categorical programs in the Assembly Bill 602 formula until a finalized formula is adopted

- Maintains Special Education Local Plan Area Governance and Accountability Structure



# Changes to the 2020–21 LCAP

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The Local Control and Accountability Plan (LCAP) template adopted by the State Board of Education (SBE) in January will not be used for 2020–21

The templates to be used for the 2020–21 LCAP and the 2019–20 Annual Update require a change in statute, and few details currently are available

The California Department of Education will develop the new templates for 2020–21 in consultation with the SBE and stakeholders

Expected to be available in late summer of 2020



# 2020–21 LCAP Deadlines Extended

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**Deadline for LCAP, Annual  
Update, and Budget  
Overview for Parents  
extended from July 1 to  
December 15, 2020**

**Deadline for county  
superintendent or state  
superintendent of public  
instruction to approve  
the LCAP extended to  
January 14, 2021**

**Deadline for a charter school  
to submit the LCAP to its  
authorizer and the county  
superintendent extended to  
December 15, 2020**



# Assumptions for 2020-21 Preliminary Budget

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- 2019-20 Estimated Actuals
- Preliminary Budget for 2020-21
  - ◆ Line “C” on Form 01 which can be found on page B34

Current Year Revenue  
Exceed

Current Year Expenditures  
Excess or Surplus

Current Year Expenditures  
Exceed

Current Year Revenue  
Deficit



# OCDE 2019-20 Estimated Actuals Budget

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- **One-time Revenue that we do not think will reoccur in 2020-21 (change in ADA formula)**
- **\$8,479,710 in program revenue that is received in 2019-20 but will be expended in 2020-21**
- **\$2.7 million reduction in expenditures due to COVID-19 closures**
- **Surplus/Excess of \$26,955,783**



# Assumptions for Preliminary Budget

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- **We have incorporated the majority of the Governor's May Revise but we want to take a moment to share some thoughts around our budget development process**
  - ◆ **The Governor's May Revise has drastic reductions that are currently being debated in the legislature**
  - ◆ **The Governor's May Revise states that some reductions will be triggered off if federal funding is received, since we do not know the outcome we have been conservative and projected the full reduction**
  - ◆ **We are fortunate that we have sufficient reserves to allow us to continue to evaluate the needs of our students, districts and community partners**
  - ◆ **We have developed a budget plan that will allow us to balance the structural budget by the end of year without impacting our reserves**



## 2020-21 Preliminary Budget

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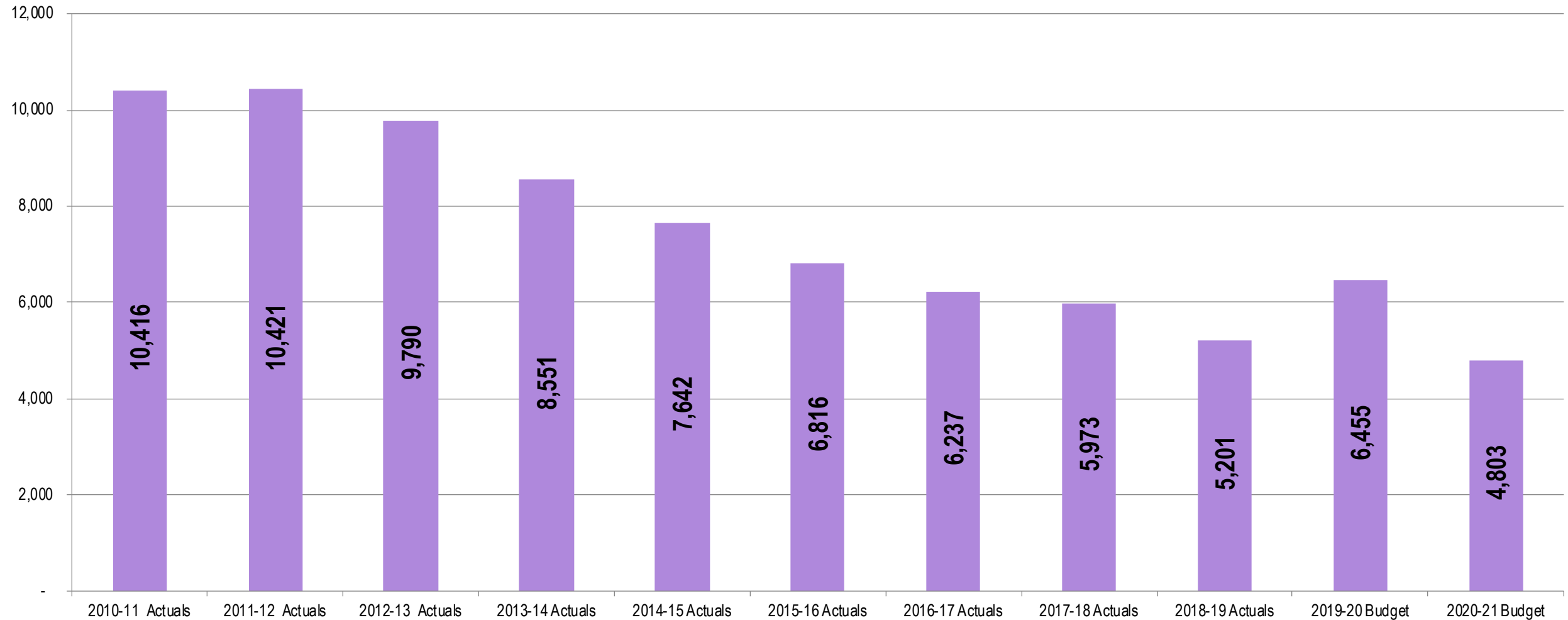
- Assumes projections in the May Revise of 10% reduction in LCFF (Local Control Funding Formula)
- 10% Reduction in Minimum State Aid has more funds being transferred to the Orange County Courts
- \$8,479,710 in expenditures from revenue received in 2019-20
- Does not include new funding for the K12 Strong WorkForce, After School Programs, CTEIG, we have budgeted to expend carryover funds
- Does not include any Federal COVID-19 relief due to different proposals from Governor and Legislature
- Detailed information for revenue outside of LCFF are detailed in the Budget summary in addition to the listing of the Contracts/Entitlement/Grants worksheets at the end of the packet.



# OCDE Average Daily Attendance

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Total ADA for OCDE Programs





# 2020-21 Preliminary Budget

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## ● Salaries and Benefits

- ◆ With retirement Incentives, and reduction of positions through attrition due to declining enrollment over the last few years we made corresponding reductions in positions. This results in reserves that will allow us more time and flexibility to adjust to reductions in the State Budget
- ◆ During past recessions we did not give salary increases but were able to avoid, furlough days, and salary reductions and were able to retain a quality workforce
- ◆ Projected in the budget is approximately \$5 million in vacant and new positions. We are currently evaluating those and we anticipate savings
- ◆ We have not budgeted for any salary or benefit increases except for step and column increases that are in the collective bargaining agreements
- ◆ On-going increases for STRS and PERS are included in the budget



## 2020-21 Preliminary Budget Assumptions

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- **\$3.5 million of one-time expenditures are included in this budget for capital improvements and furniture needs for our student programs as we continue to consolidate sites to improve efficiency of staffing and to improve services for students**
- **Built into the budget is an increase for increase custodial staff, contract services for deep cleaning, cleaning supplies, and PPE (personal protective equipment) for both staff and students**
- **Increase in expenditures for technology needs to ensure we have proper chromebooks, laptops, internet connectivity and devices for students and staff**
- **Increase in consultants for professional learning for staff to improve distance learning strategies**



# 2020-21 Preliminary Budget

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- **Strategies to reduce expenses**
  - ◆ **Salaries – All vacant and new positions are being reviewed by Superintendent and Cabinet for possible reductions in positions**
  - ◆ **Superintendent has required that travel budgets be evaluated and reduced for general administrative staff**
  - ◆ **Only essential out-of-state travel will be approved by the Superintendent**
  - ◆ **Object Code 5210 Local Travel is not reduced since this is mostly for site staff that travel between sites 2% increase**
  - ◆ **Object Code 5220 for travel outside of the county reduced by 20%**
  - ◆ **Object Code 5230 for conferences reduced for general administrative staff reduced by 14%**
  - ◆ **Reduction in consultants for administrative needs where possible**



## 2020-21 Preliminary Budget

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- **Currently shows a deficit of (\$21,787,721)**
- **\$8,479,710 for One-time expenditures for projects that funding was received in prior years**
- **\$10,208,639 for one-time projects and contingencies related to COVID-19**
- **If federal revenue is received (currently we know \$2.1 from CARES Act) it will offset some expenditures in the budget**
- **Actual deficit is less than \$1 million dollars**
- **The Orange County Department of Educations budget philosophy is conservative and we strive for a budget that is structurally balanced. We believe that with continual monitoring and with adequate reserves we have the ability to continue balancing the budget without impacting services to the students and districts we serve**



## 2020-21 Preliminary Budget

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- **Exciting News, on May 28, 2020 the State Allocation Board approved funding for Community School #9**
- **We have 90 days to substantially perform activities to withdraw the funds or we will be removed from the list**
- **We have interviewed and selected a Construction Firm for the Lease-Lease Back building of the school and construction is slated to begin in the Fall with a 13-15 month build expected**
- **We have had preliminary conversations with the City of Anaheim Economic Development Department on possible partnerships to assist our students with future career opportunities**
- **Students are currently in leased sites in the area and this site will allow for a safe learning environment with enriched services for them**



**Thank you!**