



Budget Update

School Board Meeting

Presented by:
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Chief Business Officer

April 27, 2020



Outcomes

- Share perspectives of Contra Costa Health Services
- Explain a typical economically driven recession and the historical impacts
- Identify where we are currently seeing savings/expense differentials
- Review COLA and Property Tax implications
- Present cash flow and what happens when we do not have it available
- Discuss strategies to effectively manage cash
- Share levels of speed of recovery and impact
- Identify budget development considerations tied to economic changes

What are Contra Costa Health Services, County of Santa Clara Public Health Department advising?

- A vaccine won't be readily available for 12-18 months
- A second wave of infections are expected in the Oct/Nov timeframe
- Children/staff with significant health conditions will continue to be vulnerable
- Teaching and reinforcing prevention behaviors will be critical
- A continuum of distance/blended learning will be needed
- Strategies for social distancing will need to be explored
- Ongoing attendance issues

The Economy isn't in a Great Place



ECONOMY

US weekly jobless claims jump by 6.6 million and we've now lost 10% of workforce in three weeks

Economic vs A-Typical Recession

ECONOMIC

- Economic growth slows sharply
- Unemployment levels spike
- Earning growth slows/goes negative
- Government revenues will diminish (the tax base)
- Recovery is slow

A-TYPICAL

- Economic growth slows sharply until reopening
- Unemployment levels spike, then recover with reopening
- Earning growth slows/goes negative for calendar year until reopening
- Government revenues rise post-opening
- Government revenues rise
- Rate of recovery can be rapid, relative to phases of reopening

Compare and Contrast of Current Conditions

Current economic conditions are driven by a medical crisis

- Great Recession was driven by poor lending practices by the banking system
 - Mortgages approved for people that could not afford them
 - Household debt was highly leverage
 - State had no Rainy-Day fund reserves
 - Immediate mid-year reduction to revenues
 - Assessed Valuation of real property decreased up to 35% in some areas

COVID-19 is a Pandemic that could not be predicted

- Unprecedented restriction to social and economic activities
- Early Federal and State interventions
- Strong economy going into the crisis
- State reserves and Rainy-Day funds built-up



Recession - Here We Go Again - School Services of California, 4/15/20

In 2008 Great Recession, buying power was 80 cents on the dollar for several years

Cash was nearly cut in half for the current fiscal year apportionment deferrals

In California, schools are on the edge of fiscal volatility.



What is the “Common Message” to Districts?

- CCSESA Business & Admin Steering Committee, 4/14/20

- We abruptly moved into a very different economic environment
- Recessions tend to **last 10-15 months**, but effects on public education are longer lasting
- CA - May Revise and June Budget will not have true financial picture - **it will get worse over time**



Current Savings & Expense Differentials

Save in....

Utilities
Gasoline for buses
Materials and supplies
Assessments
Some contracted services

Increased spending in....

- Procuring technology devices
- Technology infrastructure
- Online learning resources
- Cafeteria funds
- Custodial supplies
- Overtime in certain departments

0% or Negative COLA

“Cost of Living Adjustment”

In June 2019 - the 20/21 COLA was estimated to be 3%

In January 2020 - the 20/21 was estimated to be 2.29%

In April 2020 - Contra Costa County Office of Education imposed a three year, 0% COLA - plus deferrals (that makes it “negative”)

That means....\$6.5 million reduction in 2nd Interim projected revenue.

- **Contra Costa County Office of Education (CCCOE)** directed all districts to submit revised 2nd Interim Multi-Year Projections with 0% COLA
- **School Services of California** (memo - April 22, 2020) - “optimistic to think it will be just a 0% COLA”

What happened to COLA from 07/08 to 09/10 during the Great Recession?

ADA = average daily attendance, funding based on students in class each day

2007/2008

Projected 5.66% COLA for 08/09 and 4.25% for 09/10

These amounts were built into MYP (multi year projections)

Great Recession hit

33,940 ADA (96% of enrollment)

2008/2009

- 5.66% COLA
....down to 0% COLA
plus another \$162/ADA

- \$491 reduction/ADA

33,554 ADA - \$16,664,540 reduction in funding

2009/2010

- 4.25% COLA
....down to 0% COLA
plus another \$253/ADA

Funding down \$1,177/ADA, or more than 18%

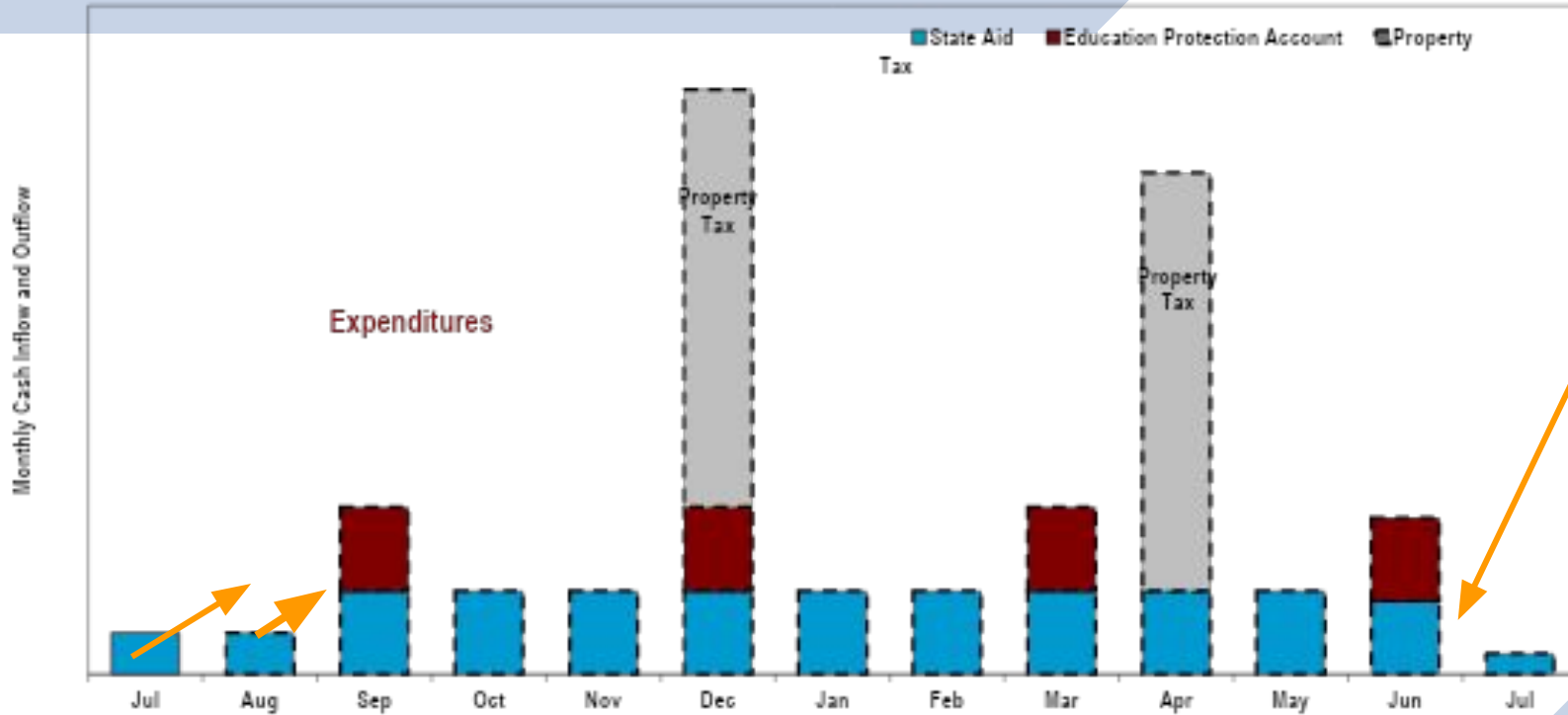
32,943 ADA - \$38,773,911 reduction in funding

““ Reminder - we just reached 2007 purchasing power last year with full implementation of Local Control Funding Formula (LCFF).

4/15/20

**School Services of California -
“Here We Go Again?”**

What does "Cash Flow" mean?



Cash Flow - Impacts of Deferrals

APPORTIONMENT DEFERRALS	Deferral	<u>% Deferred</u>
July deferred until September	2.82%	56%
July deferred until Jan (New to 2011-12)	2.18%	44%
August deferred until January (new to 2011-12)	5.00%	100%
October deferred until January	9.00%	100%
February deferred until July	8.41%	93%
March deferred until April	3.53%	39%
March deferred until August (new to 2011-12)	5.47%	61%
April deferred until July	1.76%	20%
April deferred until August	5.89%	65%
May deferred until July	3.36%	37%
May deferred until August	4.21%	47%
June deferred until July	9.00%	100%
TOTAL DEFERRALS	60.63%	60.63%
TOTAL DEFERRED INTO NEXT FISCAL YEAR	38.10%	38.10%

What will we do to address cash flow?

“Cash is king!”

- Must predict cash flow into 21/22 school year, per CCCOE
- Frequent check-ins with County Auditor/Controller to understand cash flow expectations and adjust projections (April = property tax collection month)
- Delay discretionary purchases districtwide
- Temporary interfund borrowing
- If needed: Tax & Revenue Anticipation Notes (TRANS), borrow from CCCOE or County Treasurer
- Maintain reserves

Anticipate the Worst-Case Scenario

Department of Finance (DOF) Letter March 24, 2020:

“Despite the sustained efforts, the virus continues to spread and is impacting nearly all sectors of California's economy. Among these impacts is a severe drop in economic activity, with corresponding **negative effects on anticipated revenues**. The impact on revenues could be immediate, affecting the 19-20 fiscal year, and will certainly produce impacts for the upcoming 2020-21 fiscal year and beyond. . . As a result of the conditions noted above, the **Department of Finance will now reevaluate all budget changes within the context of a workload budget**” . . . **As a result, agencies and departments should have no expectation of full funding for either new or existing proposals and adjustments.”**

- May Revise where Governor Newsom gives us details on what to expect with the State Budget - **MDUSD will create a budget based on May Revise**
- State will approve a “working budget” in June
- Tax revenue will come in July/August
- State will revise its budget in August - **MDUSD will revise its 45 day budget**
- If State Budget decreases, we will face more reductions starting in September

State Budget Next Steps (and MDUSD Response)



Planning for Worse Case Scenario - Based on 2nd Interim report

- Expect 0% COLA for each of the next three years **\$6,500,000/\$13,000,000/\$19,500,000**
(compounds)
- Deferrals/elimination of monthly apportionments, starting in June
- Increases in CalPERS and CalSTRS contributions - 1% in each per year - **\$1,000,000**
reduction per year (compounds)
- 20% reduction in Lottery **\$1,300,000** reduction
- 20% reduction in Local Revenue **\$3,000,000** reduction
- Possible health benefit increases

▶ **\$11,800,000 in additional revenue reduction and possible delayed apportionments of remainder**



■ Board Q&A