LAO Releases Preliminary Analysis of California's 2020–21 Spending Plan

By Patti F. Herrera, Edd and Robert Mcentire, Edd
posted August 14, 2020

On August 13, 2020, the Legislative Analyst's Office (LAO) published its preliminary analysis of California's Spending Plan that was adopted in June as enacted by the 2020–21 State Budget. Citing the rapidly evolving public health and economic impact of COVID-19, revenue estimates over the 2019–20 and 2020–21 fiscal years declined by $42 billion. Compounding matters further, anticipated emergency spending for protective gear; housing for those directly affected or at high risk of contracting COVID-19; and increased Medi-Cal costs to treat, test, and trace the virus are expected to reach $12.3 billion—rounding out the $54.3 billion budget shortfall.

The 2020–21 State Budget package includes $196 billion in state spending, of which just over $133.94 billion comes from the state's General Fund. The 2020–21 package recognizes a decrease in state spending over 2019–20 expenditures by 4%, with special fund revenues offsetting a 9% ($13 billion) decrease in General Fund spending. The state closes the budget gap through a series of programmatic reductions and interfund borrowings. The LAO notes that revenue projections, as used in the Enacted State Budget, assume a decrease in revenues from the "Big Three"—personal income, sales and use, and corporation taxes—totaling $19.7 billion from the revised lower 2019–20 revenue projections, most of which is lost to reductions in personal income tax ($18 billion). Meanwhile, the sales and use tax declines more modestly by $4.4 billion and the corporate tax is expected to increase by $2.7 billion.

The fates of the state economy and public education are tied, as the Proposition 98 minimum guarantee drops in tandem with state revenues. The 2019–20 Proposition 98 minimum guarantee was down from January expectations by $3.4 billion to $77.7 billion, falling behind the 2018–19 funding levels by $844 million. The 2020–21 Proposition 98 minimum guarantee fell 8.7% ($6.8 billion) from 2019–20 to $70.9 billion, with K–12 funding dropping by 8.8% ($6 billion) and community college funding falling by 8.2% ($745 million).

The Enacted State Budget does not include a cost of living adjustment to the Student Centered Funding Formula, but does maintain the 70/20/10 split between base, supplemental, and student success allocations. It also provides a hold harmless for the full-time equivalent student count; allows for data from 2018–19 to be used in for supplemental and student success allocations in lieu of the 2019–20 numbers; and extends the apportionment hold harmless by two years, through fiscal year 2023–24.

The state is only capable of funding the minimum guarantee by employing significant deferrals totaling $12.5 billion for K–14 education. The community college apportionment deferrals total $1.45 billion. For more information regarding the local impact of deferrals, see the June *Community College Update* article, "Cash Deferrals and Budget Deferrals." The State Budget includes an earmark of additional federal stimulus dollars that would reduce the planned deferrals for each community college by $791; however, with lawmakers in Washington, D.C., at an impasse, this prospect appears to be dimming.

Beginning in 2021–22, the state will begin making supplemental payments in excess of the Proposition 98 minimum guarantee equaling 1.5% of the annual General Fund revenue, up to $12.4 billion. The aim is to increase the share of K–14 education spending in the State Budget from 38% to 40% permanently under Test One. While there is no stated intent about how those funds will be allocated within Proposition 98, it is notable that the amount of supplemental funding nearly equals the amount of the deferrals included in the State Budget. Thus, it could be that in future years, the payments will be scored as paying down deferrals, which will have the effect of nullifying any programmatic benefits the payments could otherwise reap for K–14 districts.

Shifting $2.3 billion in supplemental pension payments on behalf of schools and community colleges from payment of long-term pension liabilities in the 2019–20 State Budget Act, the 2020–21 budget plan repurposes the payment to reduce pension costs by a larger amount over the next two years—yielding a savings of approximately 2% over 2020–21 and 2021–22. The California State Teachers' Retirement System employer contribution rates are 16.15% in 2020–21 and approximately 16% in 2021–22. While the 2020–21 rates were set with Assembly Bill 84, the 2021–22 rates will be subject to some fluctuation, and updates will be provided by each system as we approach that fiscal year. The CalPERS schools pool employer contribution rates would be reduced from 22.67% to 20.70% in 2020–21, and from 24.60% to 23.01% in 2021–22.

The LAO will update its analysis in early fall to include adjustments that may be warranted by future legislative action. To review the LAO's 2020–21 California Spending Plan, click here.