

# The Marin Common Message

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May Revision 2020

**MARIN COUNTY OFFICE OF EDUCATION**

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## 2020-21 Preliminary Budget Key Guidance

On May 14, 2020 the Governor presented an overview of the May Revision. “This is no normal year. And this is no ordinary May Revision.” With a budget deficit of \$54 billion, very different from his January proposal with a proposed \$5.6 billion surplus, the Governor meticulously outlined a variety of budget balancing strategies, including a variety of cancelled expansions, tax suspensions, deferrals, use of reserve funds and reductions. Since mid-March, more than 4 million Californians have become unemployed. The state’s revenue sources have dropped and projections of the state’s main revenue sources – personal income tax, sales and use tax and corporation tax – have been reduced in the budget year by 25.5 %, 27.2% and 22.7% respectively. These revenues comprise more than 90% of the general fund revenue.

The Governor in his May Revision takes action to bring expenditures in line with available funding, using reserves to soften the blow. He is implementing a 10% cut to state programs including K-12 and higher education, childcare and other state programs. Recognizing a statutory COLA that flows into LCFF, he has applied the 10% reduction, which will net a 7.92% decline in the LCFF base grant amount. The May Revision proposes \$4.4 billion in federal funding to LEAs to mitigate inequitable learning exacerbated by the COVID-19 pandemic. The Governor is proposing two thirds of the funding be allocated to districts with a high concentration of English learners, low income and foster youth on a per ADA basis and one-third of the funding be distributed based on the count of special education students.

The provisions of Executive Order N-26-20 and Senate Bill 117, Chapter 3, Statutes of 2020 will become inoperative on July 1, 2020. This provided flexibility from in-person instruction for required minutes, days and related attendance reporting for apportionment.

## Significant Changes Since Second Interim

The primary change from second interim is the decrease in state revenues and corresponding reduction in Prop. 98 funding. Although the Governor takes a thoughtful approach to use of reserves and makes a long-term commitment to restore Prop. 98, the impact to K-12 education is substantial. Below are the major changes:

- Net decline of 7.92% to LCFF base grant amount (COLA 2.31% less 10% reduction)
- 10% reduction to LCFF Minimum State Aid
- Withdrawal of \$1.84 billion of January K-12 education proposals
- Federal stimulus of \$4.4 billion for learning loss mitigation
- Suspension of statutory COLA (2.31%) on all other revenue streams
- Deferral of the June 2020 apportionment to July 2020; and \$5.3 billion deferral of 2020-21 apportionments for April, May, and June to 2021-22.
- Redirecting STRS and PERS payments toward long-term unfunded liabilities to reduce 2020-21 and 2021-22 rates.
- Flexibility to some provisions based on collaboration with the education community.

## Planning Factors for 2020-21 and MYPs

Key planning factors for LEAs to incorporate into their 2020-21 budgets and MYPs are listed below and are based on the Governor's May Revision. The Department of Finance estimates the proration factor will grow to effectively eliminate statutory COLA until such time as the state is able to recover economically.

Planning Factor	2020-21	2021-22	2022-23
LCFF Statutory COLA	2.31%	2.48%	3.26%
Base Grant Proration Factor	- 10.00%	- 12.178%	-14.95%
Effective Change in LCFF	- 7.92%	0.00%	0.00%
Add-on, ERT & MSA Prorated Factor	-10.00%	-10.00%	-10.00%
STRS Employer Rates – <i>Proposed</i>	16.15%	16.02%	18.40%
STRS Employer Rates – Current statutory	18.41%	18.20%	18.10%
PERS Employer Rates - <i>Proposed</i>	20.70%	22.84%	25.80%
PERS Employer Rates – Current statutory	22.68%	24.60%	25.50%
Mandated Block Grant for Districts K-8 per ADA	\$32.18	\$32.18	\$32.18
9-12 per ADA	\$61.94	\$61.94	\$61.94
Mandated Block Grant for Charters K-8 per ADA	\$16.86	\$16.86	\$16.86
9-12 per ADA	\$46.87	\$46.87	\$46.87
State Preschool (CSPP) Part-Day Daily Reimbursement Rate	\$28.24	\$28.42	\$28.42
State Preschool (CSPP) Full-Day Daily Reimbursement Rate	\$45.61	\$45.61	\$45.61
General Child Care (CCTR) Daily Reimbursement Rate	\$45.61	\$45.61	\$45.61
Routine Restricted Maintenance Account ( <i>Flexibility for calculation to exclude STRS and PERS on behalf payments</i> )	3%	3%	3%

## LCFF Reduction

Absent additional federal funds, the Governor is proposing a 10% (\$6.5 billion) reduction to LCFF. This reduction effectively eliminates the statutory 2.31% cost-of-living adjustment resulting in an overall reduction of 7.92% for those districts and charters funded under the LCFF. The proration factor reducing LCFF entitlements will be triggered if the federal government provides sufficient funding to backfill this cut.

The 10% proration factor is applied to the base grant after applying COLA, effectively reducing the base grant, the grade span adjustment, and the supplemental and concentration grant funding by 7.92%. The add-ons to the LCFF target for Targeted Instructional Improvement Grant, Home to School Transportation and Small School District Bus Replacement Program are also subject to a 10% reduction as is the Economic Recovery Target.

With regard to basic aid districts, the LCFF Minimum State Aid (MSA) is subject to a 10% reduction. For most basic aid districts, MSA is equal to 2012-13 categorical funds as reduced by the fair share reduction that were subsumed into the LCFF. This net amount is reduced by 10% in the Governor's May Revision.

The Administration do not foresee any improvement in the state's economic outlook for the multi-year period and recommended the base grant proration factor should increase from 10% in 2020-21 to 12.178% in 2021-22 and 14.95% in 2022-23 to effectively eliminate statutory COLA.

## Proposition 98

The May Revision proposes to provide supplemental appropriations above the constitutionally required Prop. 98 funding level, beginning in 2021-22, and in each of the next several fiscal years, in an amount equal to 1.5% of general fund revenues per year, up to a cumulative total of \$13 billion. This will accelerate growth in the guarantee, which the administration proposes to increase as a share of the general fund. Currently, Prop. 98 guarantees that K-14 schools receive approximately 38% of the general fund in Test 1 years. The May Revision proposes to increase this share of funding to 40% by 2023-24.

## Cash Flow / Deferrals

Cash flow is critical. Interyear deferrals described in the Governor's May Revision will shift Prop. 98 appropriations at the end of the fiscal year. For the 2019-20 fiscal year, the full June 2020 Second Principal Apportionment (P-2) payment will be deferred to July 2020. For 2020-21, the deferrals are estimated at \$5.3 billion and include a portion of April, all of May, and all of June 2021 state aid to a preliminary payment plan of July, August and September in 2021-22. All deferral estimates and payback months are subject to change. Please see the appendix for a chart depicting estimated apportionment deferrals.

The Education Protection Act (EPA) cash allocations in 2019-20 exceed the revised estimated EPA revenue through the third quarter. Therefore, LEAs will not receive a fourth quarter cash allocation in

June 2020. Many districts will be over-appropriated for EPA in 2019-20 and will owe funds to the state at the P-2 certification. These overpayment amounts will be subtracted from the July 2020 payment of the deferred June principal apportionment. Districts that have not received their minimum \$200 per ADA in 2019-20 should accrue the amount owed, which is expected to be paid in July-August.

It is imperative to review anticipated cash receipts and cash outflows based on various budget scenarios. LEAs should also consider the cash impact of reduced local revenues as discussed in our budget sessions.

LEAs should begin examining all cash management options including interfund borrowing and tax anticipation notes (TANs), including the new addendum allowing an extended borrowing period, to prepare for this forthcoming period of cash flow challenges.

## Local Control and Accountability Plan (LCAP)

Gov. Newsom issued Executive Order (EO) N-56-20, which extends the deadline to adopt the LCAP, Annual Update and Budget Overview for Parents to December 15, 2020 for LEAs, including school districts, charter schools, and county offices of education on the condition that the governing board of the LEA adopts a COVID-19 written operations report (COVID-19 report) by July 1, 2020.

The COVID-19 report should accompany the budget for the budget public hearing and must be adopted during the same meeting at which the governing board or body of the LEA adopts the annual budget. CDE has developed a template that may be used for the COVID-19 report which should succinctly explain the changes the LEA made to program offerings during the pandemic and the major impacts of school closures on families and students, including, at a minimum, a description of how the LEA is meeting the needs of LCFF student groups.

School districts must submit the COVID-19 report to the county superintendent of schools in conjunction with submission of the adopted annual budget and Charter schools must submit the report to their charter authorizer. All LEAs must post a copy of the COVID-19 report on the homepage of their website.

The deadline to submit the LCAP to the county superintendent of schools for review and approval is extended to December 15, 2020. The decoupling of the LCAP from Budget Adoption, means that approval of District's budgets is not dependent on LCAP requirements. In addition, the requirement for boards to review data to be publicly reported for Dashboard local indicators in conjunction with the adoption of the LCAP is waived.

The 2020-21 LCAP will be a one-year LCAP to be prepared using an as-yet-to-be developed template. CDE will host a working group once again to develop the template over the summer months.

Use of the newly redesigned LCAP that we were exploring in the Strategic Planning Network will be delayed until 2021 to prepare the new three-year LCAP cycle for 2021-22 through 2023-24.

## Categorical Programs

The May Revision proposes steep cuts to existing Prop. 98 funded categorical programs, totaling \$352.9 million in 2020-21. The largest cut in absolute dollar terms is a \$100 million reduction to After School Education and Safety. This reverses the Prop. 98 daily reimbursement rate augmentations added in recent years and reverts the rate to the Prop. 49 funded level of \$7.50 per day. The Adult Education Block Grant was cut by \$66.7 million (approximately 12.1%) relative to the Governor's January Budget proposal.

The remaining cuts listed below propose reductions of approximately 50% from 2019-20 levels to the following programs:

- K-12 Strong Workforce Program: \$79.4 million
- Career Technical Education Incentive Grant (CTEIG) Program: \$77.4 million  
Future funding for CTEIG subject to an appropriation in the annual Budget Act.
- California Partnership Academies: \$9.4 million
- Career Technical Education Initiative: \$7.7 million
- Exploratorium: \$3.5 million
- Online Resource Subscriptions for Schools: \$3 million
- Specialized Secondary Program: \$2.4 million
- Agricultural Career Technical Education Incentive Grant: \$2.1 million
- Clean Technology Partnership: \$1.3 million

Most of these cuts could potentially be restored if the state receives sufficient additional federal funding relief. However, the administration's intent is to backfill cuts to LCFF before restoring categorical programs. The May Revision also eliminates most of the new programs proposed in the Governor's January Budget Proposal, including:

- Educator Workforce Investment Grants: \$350 million
- Opportunity Grants: \$300.3 million
- Community Schools Grants: \$300 million
- Special Education Preschool Grant: \$250 million
- Workforce Development Grants: \$193 million
- Teacher Residency Program: \$175 million
- Credential Award Program: \$100 million
- Child Nutrition Programs: \$70 million
- Classified Teacher Credential Program: \$64.1 million
- Local Services Coordination (CCEE): \$18 million
- Computer Science Supplementary Authorization Incentive: \$15 million
- Online Resource Subscriptions for Schools: \$2.5 million
- California College Guidance Initiative: \$2.5 million
- Computer Science Resource Lead: \$2.5 million
- School Climate Workgroup: \$150,000

# Federal Stimulus Funds

## Learning Loss Mitigation

The governor proposes a one-time investment of \$4.355 billion for LEAs from CARES Act funding to mitigate learning loss (\$355 million are Governor's Emergency Education Relief (GEER) funds and \$4 billion is from the Coronavirus Relief Fund).

The federal requirements tied these funds to new services for the highest needs students and are not to be considered backfill to LEA cuts. School boards are required to adopt instructional continuity plans in a public hearing describing how they will spend these funds on additional services, including any summer programs. Trailer bill language specifies that "each eligible LEA shall maintain a file of all receipts and records of expenditures for a period of no less than three years, or where an audit has been requested, until the audit is resolved."

The Governor proposes allocating the funds to LEAs as follows:

- \$2.855 billion of the grant will be distributed on a per ADA basis to LEAs that serve a concentration (55% or more) of LCFF student groups. Eligibility and ADA will be based on 2019-20 P-2 data.
- \$1.5 billion will be allocated to all school districts, county offices and eligible charters (classroom-based instruction) based on the total number of pupils with exceptional needs enrolled in the LEA using 2019-20 Fall 1 CALPADS Special Education data.

All funds received need to be expended by December 30, 2020 and used to mitigate learning loss. Funds will be sent directly to the LEAs and can be used to support all students. The following are examples for appropriate use of the funds:

- Learning supports that begin prior to the start of the school year, and the continuing intensive instruction and supports into the school year.
- Extending the instructional school year, including an earlier start date, by increasing the number of instructional minutes or days.
- Providing additional academic services for pupils, including diagnostic assessments of student learning needs, intensive instruction for addressing gaps in core academic skills, additional instructional materials or supports, or devices and connectivity for the provision of in-classroom and distance learning.
- Providing integrated student supports to address other barriers to learning, such as the provision of health, counseling or mental health services; professional development opportunities to help teachers and parents support pupils in distance-learning contexts; access to school breakfast and lunch programs; or programs to address student trauma and social-emotional learning.
- Offering classroom-based instruction based on a formula that considers the share of students most heavily impacted by school closures, including students with disabilities, low-income students, English learners, youth in foster care, and homeless youth.



## Elementary and Secondary School Emergency Relief (ESSER)

California received \$1.5 billion in CARES Act Federal Elementary and Secondary School Emergency Relief (ESSER) funds. Though received by the state in 2019-20, these funds cannot be apportioned to LEAs until authorized in the 2020-21 Budget Act. They will be distributed during the 2020-21 fiscal year based on the LEA's share of fiscal year 2019-20 Title I, Part A funds, after they complete a simple application process. A preliminary allocation schedule can be found at <https://www.cde.ca.gov/fg/aa/ca/caresact.asp>.

LEAs must obligate the funds by September 30, 2022. Since there is no supplanting prohibition, these funds may take the place of state or local funds for any allowable expenditures incurred from March 13, 2020, through the deadline for obligation.

Funding is provided to help schools respond to coronavirus and related school closures, meet the immediate needs of students and teachers, improve the use of education technology, support distance learning, and make up for lost learning time. An LEA receiving ESSER funds "must, to the greatest extent practicable, continue to compensate its employees and contractors during the period of any disruptions or closures related to COVID-19." Use of funds includes:

- Existing purposes under the Elementary and Secondary Education Act (ESEA), the Individuals with Disabilities Education Act (IDEA) and other laws.
- Preparedness coordination among government agencies
- Resources for principals and school leaders to address individual school needs.
- Providing activities to address the needs of certain disadvantaged students, including low-income students or children, children with disabilities, homeless students, and others requiring outreach and delivery of services.
- Training regarding sanitation and the minimization of infectious disease spread.
- Purchasing facility sanitation supplies
- Planning and coordination for long-term school closures, including planning for the provision of meals, online learning technology, and IDEA and other educational services to students who require them, consistent with existing law.
- Purchasing educational technology – "including hardware, software, and connectivity" – for students, including assistive or adaptive devices and equipment.
- Provision of mental health services and support.
- Planning and implementing summertime and after-school educational resources.
- Providing, planning or purchasing other activities that are necessary for the continued operation of, and provision of services by, the LEA, including its continued employment of staff (provided, that ESSER funds may not be used to subsidize or offset executive salaries and benefits of individuals who are not employees of the LEA, or for expenditures related to state or local teacher or faculty unions or association).
- Providing equitable services to students and teachers in nonpublic schools as required under the ESEA.

The Governor is also proposing allocating \$63.2 million for training and professional development for teachers, administrators, and other school personnel, focused on mitigating opportunity gaps and providing enhanced equity in learning opportunities, addressing trauma-related health and mental health barriers to learning, and developing strategies to support necessary changes in the educational program, such as implementing distance learning and social distancing.

## Special Education

For the 2020-21 fiscal year, the Governor continues to propose a revised special education base funding formula using a three-year rolling average of LEAs' ADA, including districts, charters and COEs, while continuing to allocate funding to SELPAs. The budget redirects \$492.7 million allocated in 2019-20 to the Special Education Early Intervention Preschool Grant for distribution through the new formula in addition to the \$152.6 million in AB 602 funding added in the 2019-20 budget. This additional, ongoing funding would further increase base funding rates of the lowest funded SELPAs to a new base funding rate estimated at \$645/ADA. The Governor estimates most LEAs would experience an increase in base funding, and approximately 100 LEAs with current funding rates higher than the new base rate would be held harmless. The Marin County SELPA's funding rate for 2019-20 is \$704/ADA and the SELPA will therefore be flat funded until the state-wide rate exceeds this amount.

The \$250 million for the Early Intervention Preschool Grant in 2020-21 as proposed by the Governor in January is excluded from the May Revision. All other existing AB 602 special education categorical funding sources remain unchanged and frozen at 2019-20 funding levels until a new funding formula is adopted in a future fiscal year.

The \$500,000 in one-time funding for a study of the current SELPA governance and accountability structure and \$600,000 in one-time funding for two workgroups to study improved accountability for special education service delivery and student outcomes continue to be included as in the Governor's January proposals, except these efforts are now funded with IDEA funds (previously Prop. 98 funds). \$600,000 in IDEA funds are proposed to fund a workgroup to study of out-of-home care costs and services and to develop an IEP addendum for distance learning. The May Revision also proposes \$4 million one-time funding for dyslexia research, training, and a statewide conference.

Finally, the Governor proposes using \$7 million in IDEA funds to assist LEAs with developing regional alternative dispute resolution and statewide mediation services for cases related to special education distance learning during the pandemic.

## Early Childhood Education

The May Revision applies a growth factor of -2.55% to the California State Preschool Program (CSPP), General Child Care (CCTR), Migrant Child Care (CMIG), Resource and Referral Program (CRRP), Alternative Payment Program (CAPP) and Local Child Care Planning Councils (LPCs) as well as caseload adjustments in CalWORKs Stages 1, 2, 3 and additional funding/slots in the CAPP childcare programs.

Nonetheless, the May Revision suspends COLA and the standard reimbursement rate utilized by CSPP/CCTR programs and the Regional Market Rate utilized to reimburse childcare providers in CalWORKs Stages 1, 2 and the CAPP are reduced by 10%.

The reimbursement rates for center-based contracts utilizing the SRR under this proposal are:

CSPP – Part-Day	\$28.42
CSPP – Full Day	\$45.61
CCTR	\$45.61

Impacts on CalWORKs childcare and CAPP contracts inclusive of May Revision proposals:

CalWORKs Stage 1 childcare	+58.66%
CalWORKs Stage 2 childcare	-18.17%
CalWORKs Stage 3 childcare	+10.74%
Alternative Payment Program	+14.54%

## CARES Act Funding for Child Care

California received \$350.3 million through the federal CARES Act for COVID-19 related childcare activities. To maximize the benefits of these funds to providers and families, the May Revision proposes the following expenditure plan:

- \$125 million for one-time stipends for state-subsidized childcare providers offering care during the COVID-19 pandemic.
- \$73 million for increased access to care for at-risk children and children of essential workers.
- \$8 million to extend family fee waivers until June 30, 2020.

## Pension Contribution Rates

The 2019-20 Budget Act included \$850 million to buy down LEA employer contribution rates for CalSTRS and CalPERS in 2019-20 and 2020-21, as well as \$2.3 billion toward the employer long-term unfunded liability for both systems.

To provide LEAs with increased fiscal relief, the May Revision proposes redirecting the \$2.3 billion paid to CalSTRS and CalPERS toward long-term unfunded liabilities to further reduce employer contribution rates in 2020-21 and 2021-22 as follows:

- Reduce the CalSTRS employer rate from 18.41% to 16.15% in 2020-21
- Reduce the CalSTRS employer rate from 18.2% to 16.02% in 2021-22.
- Reduce the CalPERS Schools Pool rate from 22.68% to 20.70% in 2020-21
- Reduce the CalPERS Schools Pool rate from 24.60% to 22.84% in 2021-22.

The decision to budget this pension relief should be based on the ability to absorb the increased costs should the proposal not be adopted with the final state budget.

## Fiscal Flexibility Provisions

LEA fiscal flexibility relief measures are proposed in the Governor's May Revision and are listed below:

- Exemption if apportionment deferrals create a documented hardship
- Authority to exclude STRS-on-behalf-from the Routine Restricted Maintenance Account (RRMA) calculation
- Increase in internal interfund borrowing limits (subject to public hearing) from 75% to 85%
- Use proceeds from property sales for one-time general fund purposes
- Extension of statutory timelines to address the annual LEA audit due to COVID-19

## Planning for a 45-day Budget Revision

Although recessions tend to last 10-15 months, the effect on public school funding can be longer lasting. This situation is unlike any other in that we are in the process of rethinking schools and site-based instruction. The lack of a clear understanding of school operations coupled with the continuing uncertainties impacting revenues means we may have to build our budgets on a 'workload' basis – i.e. changes in student population etc., with a full disclosure identifying those elements that have yet to be solidified.

The delay in tax filing permitted this year means that revenue figures will not be known until late July. As noted above, there is a distinct possibility the Administration will propose a budget revision in mid-August. The Property tax assessment roll will also be completed in mid-August providing much firmer information for the 2020-21 budget. Maintaining budget scenarios will provide the ability to quickly assess whether changes to the State budget are material to the District's budget and therefore require a 45-day budget revision.

## Budget Scenarios

In times of uncertain revenue streams, it is important to develop multiple scenarios that could reasonably affect the LEA. Each scenario demands a different set of corresponding actions necessary to balance revenues and sustain adequate reserve levels. In these times of unprecedented uncertainty, we recommend all LEAs maintain three budget models to depict worst, middle-ground and best-case scenarios. The intent is to be thinking about how to address a multitude of situations the LEA may find itself in once the full and actual impact of the pandemic is determined.

The FCMAT Projection-Pro software was developed for this purpose, although there are many other tools, including QSS budget models, that may serve an LEA's needs. Regardless of the tool used, planning for various scenarios is essential and should be kept current throughout times of fiscal crisis and unpredictability.

## Negotiations

Severe deterioration of the economic environment requires LEAs to be extremely cautious about the proposed impact of settlements that may hasten the evaporation of reserves or restrict the ability to solve budget constraints with salary adjustments. LEA fiscal solvency is paramount in negotiations and, if it is to be sustained, demands reasonable and accurate revenue and expenditure projections. Maintaining fiscal solvency while maximizing services to students with available financial resources will be a continuing challenge. It is inevitable that cost reductions will be required for many districts in the budget year and/or the out years of the multiyear financial projection period.

## Reserves/Reserve Cap

We continue to reinforce the need for reserves in excess of the minimum reserve for economic uncertainty. Those districts that were able to build reserves over the last years of increased school funding enter this recession with greater flexibility in how they approach reductions to revenues. The required reserve for economic uncertainty represents only a few weeks of payroll for most districts. The Government Finance Officers Association recommends reserves, at minimum, equal to two months of average general fund operating expenditures, or about 17%.

Prudent reserves afford districts and their governing boards time to thoughtfully identify and implement budget adjustments over time. Inadequate reserves force districts to react quickly, often causing significant disruption to student programs and employees.

The district reserve cap is not activated for 2020-21. Districts are advised to manage and maintain prudent reserves regardless of the reserve cap language included in Education Code (EC) Section 42127.01.

## Summary

The Common Message is designed to assist LEAs in developing budgets and interim reports and is based on the Governor's May Revision. How this information affects each LEA is unique. We note the Senate Budget and Fiscal Review Committee released a pending Senate Version of the Budget 2020-21 on May 27, 2020 that rejects many of the proposed cuts to K-12 education, relying on cash deferrals, reserves and borrowing should federal stimulus funding fail to materialize. With this in mind, LEAs should evaluate their individual educational and financial risks. Finally, as we've seen in previous recessions, there is the possibility of a mid-year cut that could come as soon August following the state's postponed July 15 personal and corporate tax collections.

# Apportionment Deferrals

As of May 2020 Revise

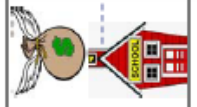
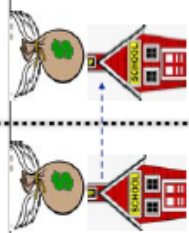
2019-20

2020-21

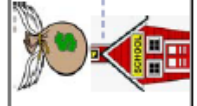
2021-22

Estimated \$1.9B June 2020 to July 2020

Estimated \$2.4B June 2021 to Jul 2021 \*

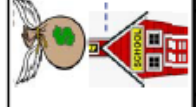


Estimated \$2.4B May 2021 to Sep 2021 \*



\$5.3B proposed to be deferred from FY 2020-21 to FY 2021-22

Estimated 22% or \$528M of Apr 2021 to Aug 2021 \*



Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep

End of 2019-20 Fiscal Year ->

End of 2020-21 Fiscal Year ->

• All amounts are estimates and payment months are preliminary and subject to change.