

**Association of California Community College Administrators/
Association of Chief Business Officials**

2021 Annual Budget Workshop

Presented By:

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Director, Management Consulting Service

**School
Services
of California**
INC. TM

An Employee-Owned Company



*Two roads diverged in a wood, and I—
I took the one less traveled by,
And that has made all the difference.*
~Robert Frost





Introduction

- **The 2020–21 State Budget went from a planned \$5.6 billion surplus to a \$54.3 billion deficit within two months as a result of the historic pandemic. Almost every major economic indicator for both the nation and California took major hits including the Gross Domestic Product (GDP), Unemployment Rates, Nonfarm Employment, S & P 500, etc.**
- **Six months later, with revenue growth surpassing the original revenue expectations forecasted in the early stages of the pandemic, Governor Gavin Newsom’s Budget proposal forecasts a dramatic restoration of funding for the state’s priorities**
- **Driving revenue growth was the recovery of those hard-hit economic indicators that, in some instances, have fully recovered and even exceed pre-pandemic levels resulting in stronger than estimated revenue from the “Big Three” taxes**
- **While very welcome, the recovery has not been even for all Californians**
 - **We didn’t get a “V,” we didn’t get an “L,” we got a “K” shaped recovery**



Overview of the National and the State Economy

- The fundamentals of the U.S. economy paint a promising picture for continued economic growth post COVID-19

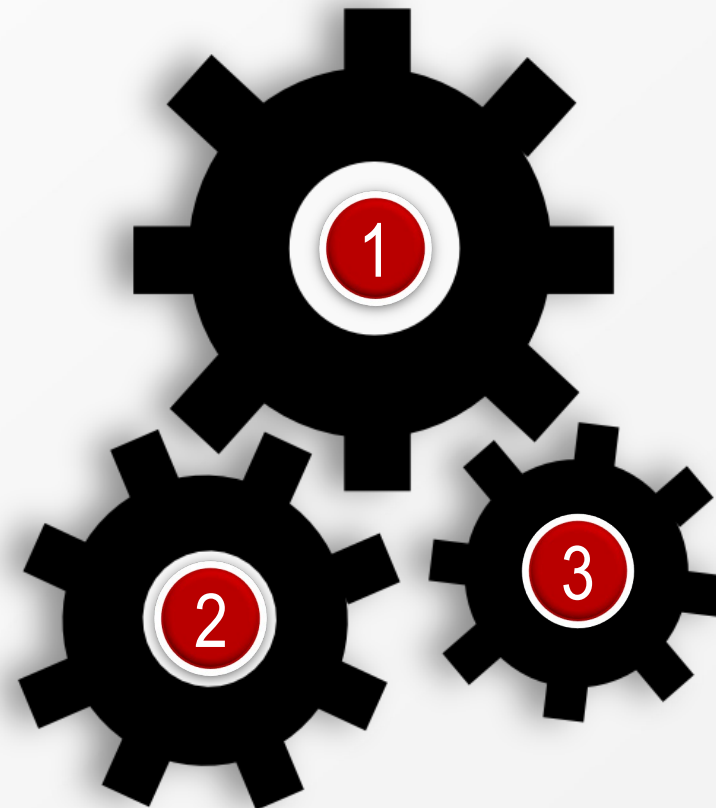
Employment

- 4.1 million more payroll jobs in December than in April

Housing

- Single-family permits increased by 8.5% over prior year
- Housing starts exceeded market expectations reaching 1.5 million units in November 2020, 12.8% above 2019

- Stock market set new all-time highs



Consumer Spending

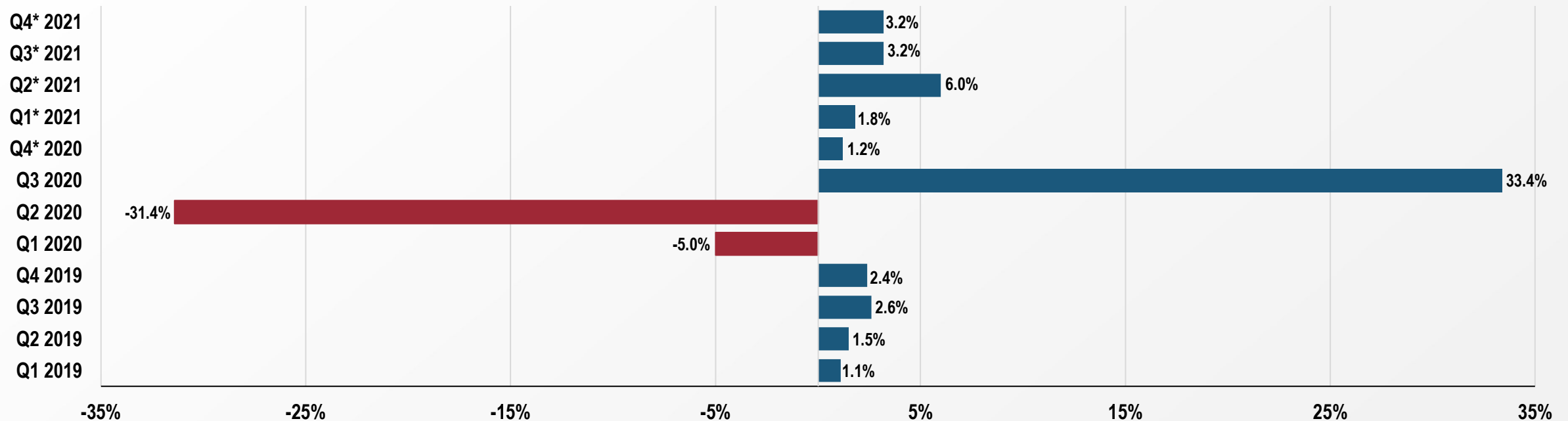
- Remains positive
- Personal consumption expenditures were flat from October 2020 to November 2020 and are 1.1% greater than last year

Gross Domestic Product

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- GDP is the monetary value of all the goods and services produced nationally, representing the most comprehensive measure of U.S. economic activity
- For the 3rd quarter of 2020, GDP increased 33.4%

Real GDP: Percent Change from Preceding Quarter



Source: U.S. Bureau of Economic Analysis, December 22, 2020, and UCLA Economic Forecast (projections)

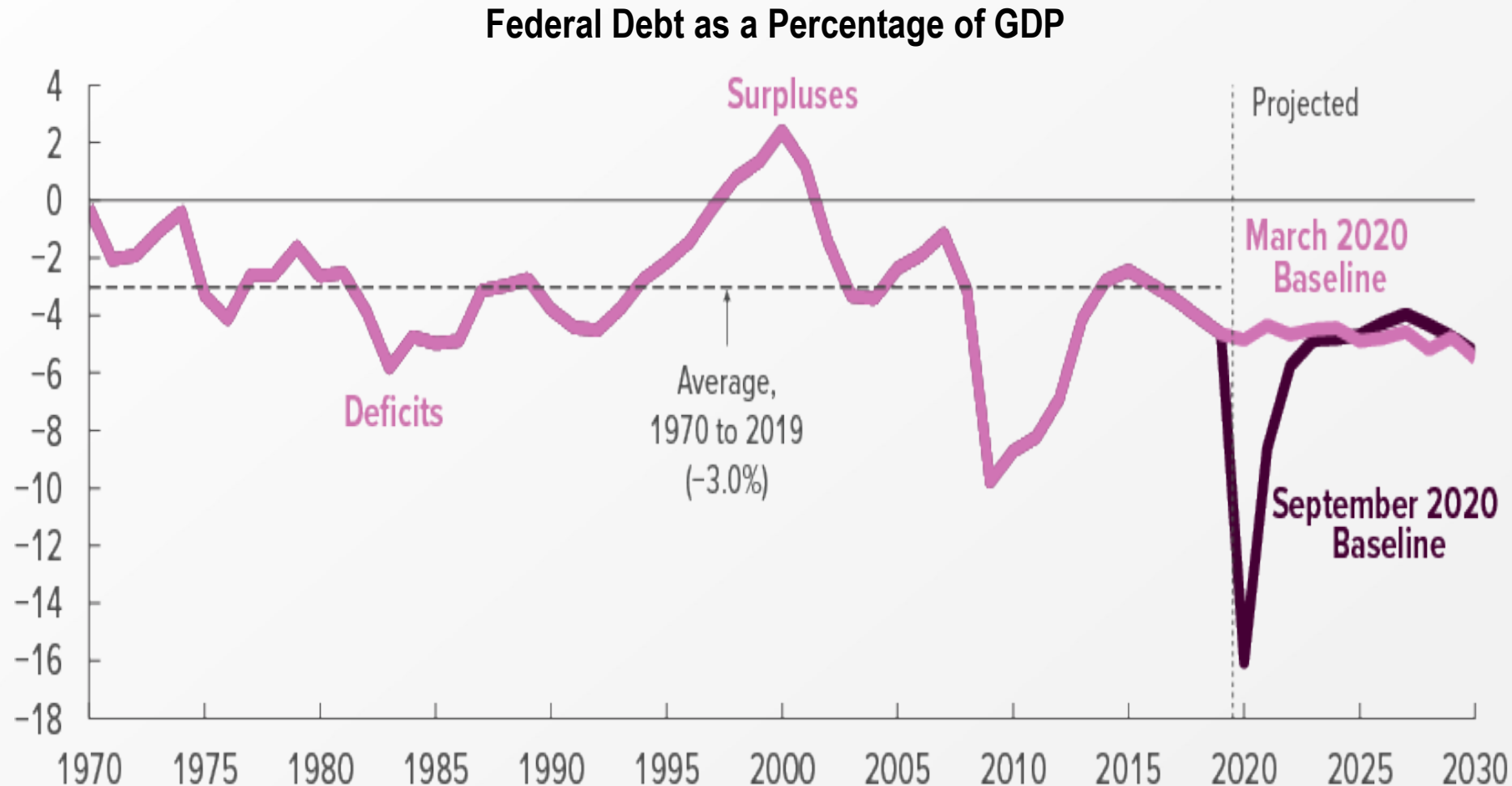
Seasonally adjusted annual rates

* = Projected

Stimulus and the Federal Deficit

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- Tax cuts in 2017 increased deficit spending nearly 2% above 50-year average
- Add COVID-19 and two stimulus programs and economic growth will not keep pace with debt

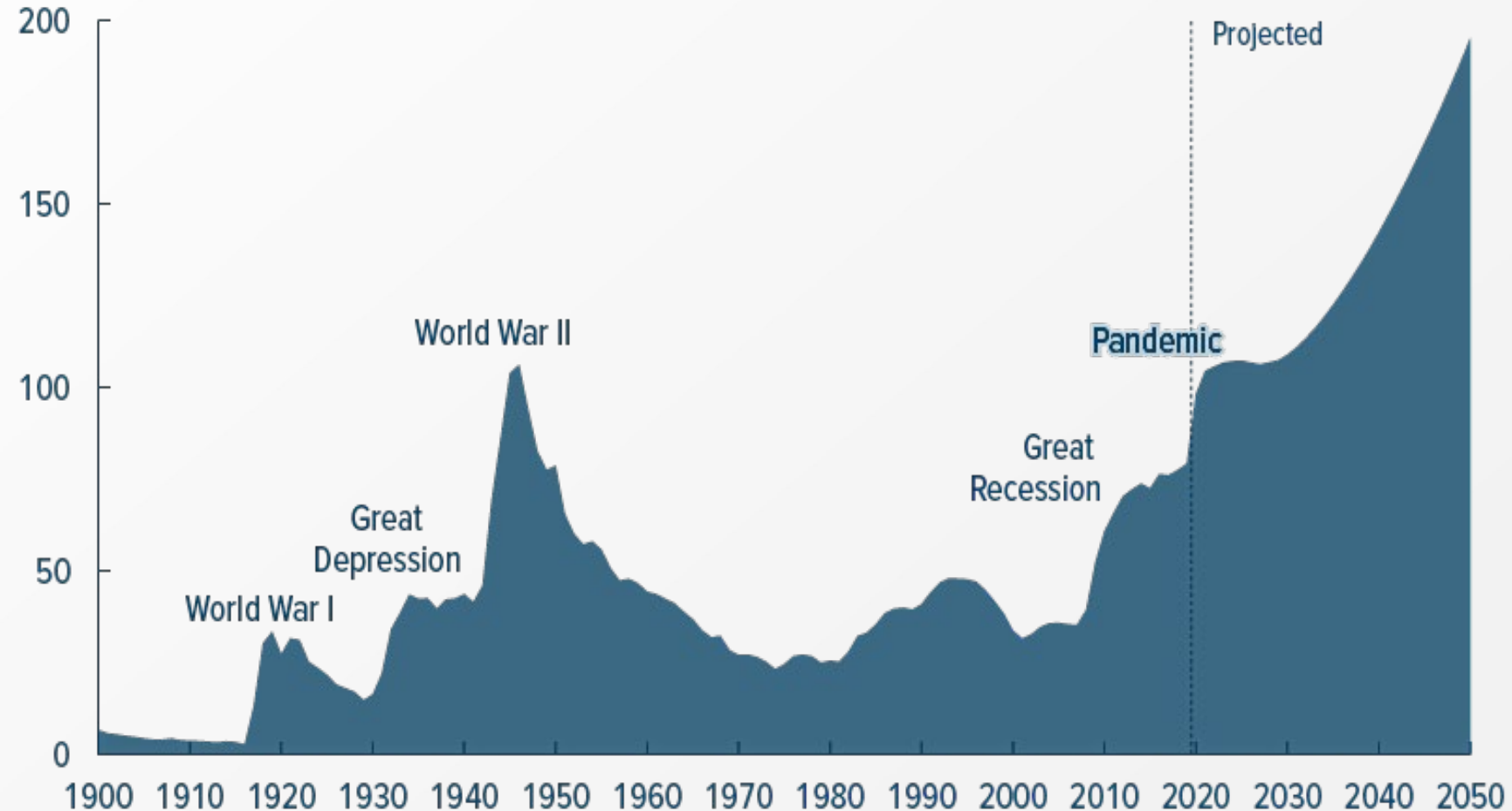


Source: Congressional Budget Office, The 2020 Long-Term Budget Outlook, September 2020

Rising Federal Debt

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- Public debt as percentage of GDP increased from 79% in 2019 to 98% in 2020
- By 2050, the national debt is projected to reach 195% of GDP
- Tax cuts, and tax bracket inflation, end in 2026, therefore, most will pay more taxes later



Impacts to Unemployment

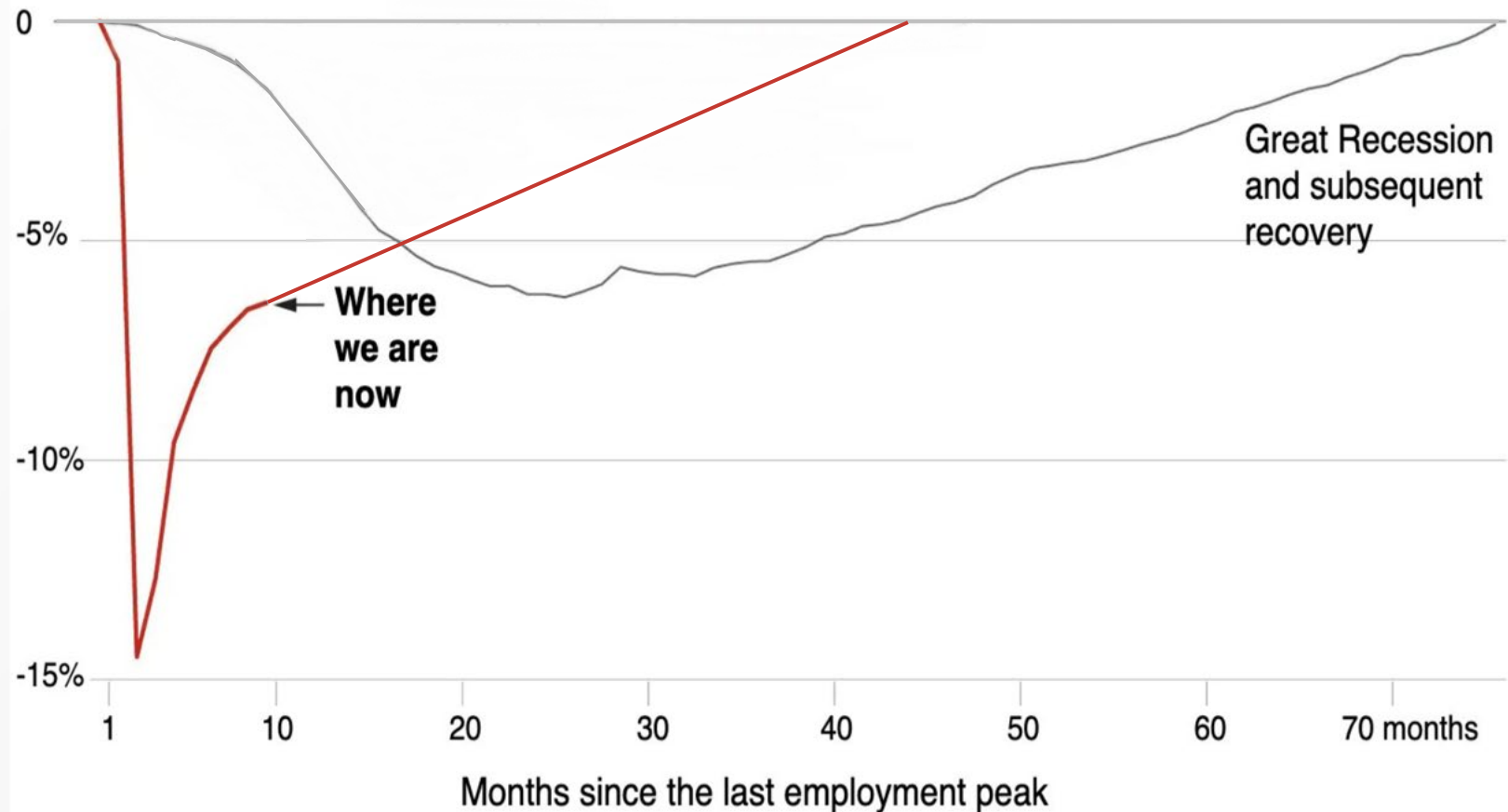
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● National Unemployment

- Long-term unemployment (27+ weeks) rose to 3.9 million or 37.1%
- Labor force participation is down to 61.5%, masking the true unemployment numbers
- December unemployment increased by 140,000
- 2nd or 3rd longest recovery track

How this recession compares to previous ones

Percent change in employment since most recent peak.

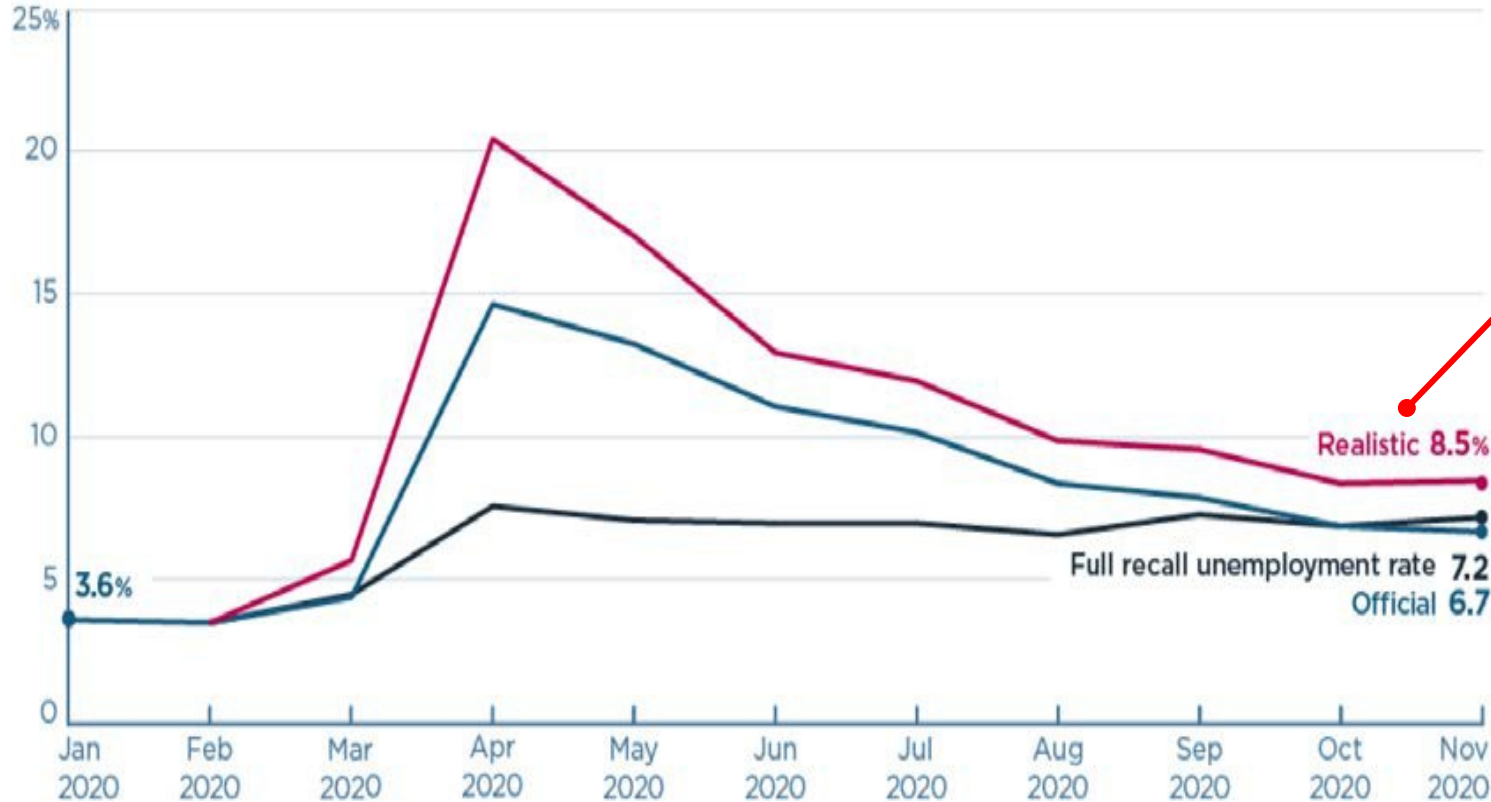


Impacts to National Unemployment

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Unemployment situation worsened in November

Alternative measures of unemployment rate

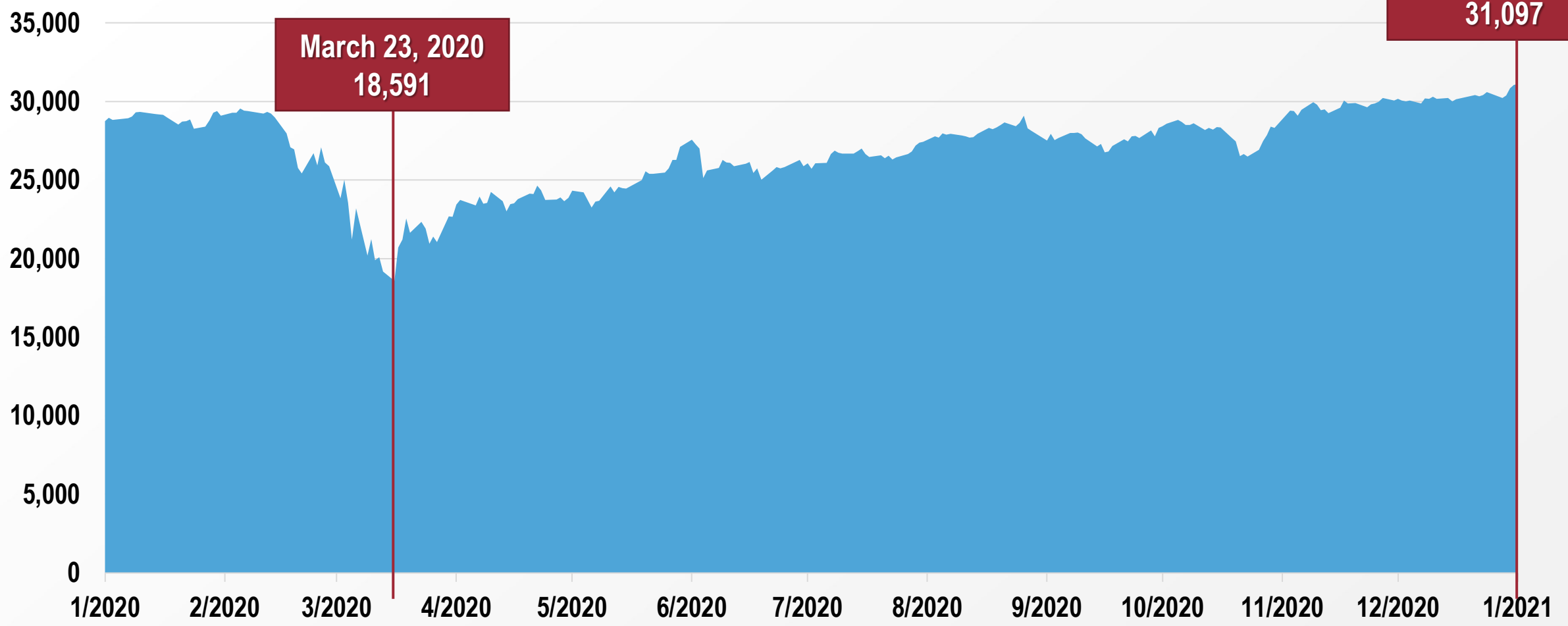


10.7 million unemployed → 6.7%
 + 2.0 million on temporary layoff → 7.2%
 + 4.7 million left labor force or “not at work for other reasons” → 8.5%

Dow Jones Industrial Average

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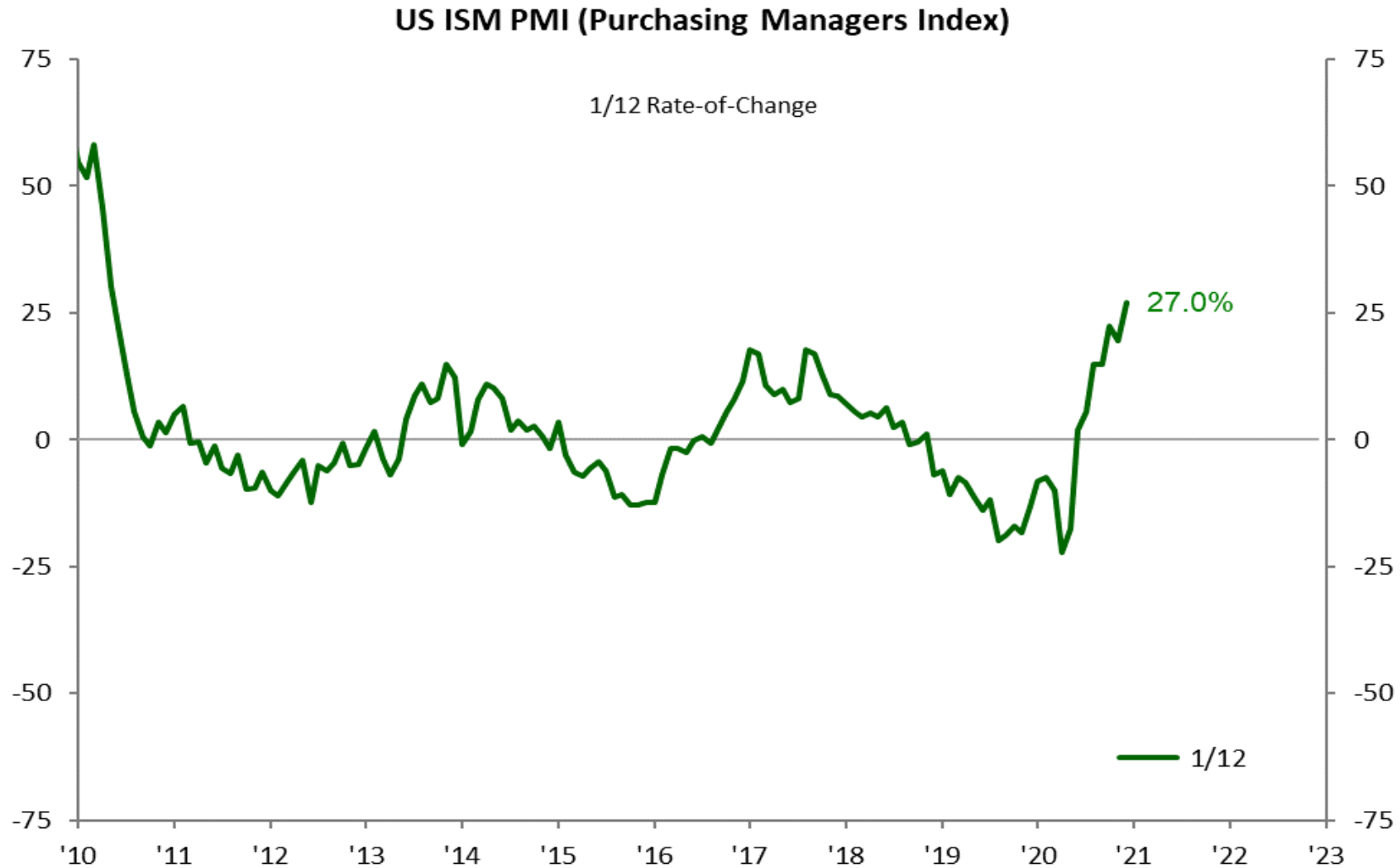
Dow Jones Industrial Average



Source: Dow Jones Industrial Average®, S&P Dow Jones Indices: Overview

U.S. Purchasing Managers Index

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Source: ITR Economics

Rail Freight Carloads

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Source: <https://fred.stlouisfed.org/series/RAILFRTCARLOADSD11>

Market Effect of Shelter in Place and COVID-19

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Big Winners

Name	Year-to-Date Total Returns (Daily)
Tesla Inc.	696.0%
Etsy Inc.	299.6%
PayPal Holdings Inc.	113.6%



Big Losers

Name	Year-to-Date Total Returns (Daily)
Carnival Corp	-57.34%
Norwegian Cruise Line Holdings Ltd	-56.53%
United Airlines Holdings Inc.	-50.35%

Period: January 1, 2020–December 30, 2020

Positives

- Gloomy winter followed by an exuberant spring
- Growth projections

	WAS	NOW
2020	-7.3%	-3.7%
2021	3.6%	3.6%
2022	5.4%	3.4%

- Employment has rebounded, recovering over a third of jobs lost since April
- Home builder confidence at an all time high, and housing market expected to remain hot through 2023

Source: UCLA June and December 2020 Forecast

Concerns

- GDP returns to prior peak in the 4th quarter of 2021, but still 4.8% below trend rate prior to pandemic (prior trend rate 2.3%)
- Stalling recovery, surge in COVID-19 cases
- Food insecurity
- Weak labor markets in some sectors
- Housing insecurity—eviction moratoriums expiring with 9% of renters behind on rent
- Job recovery slowing, expecting 41 months for job numbers to match pre-recession levels—currently 20.5 million Americans receiving some form of unemployment insurance benefits

California Unemployment

- March drop, and recovery through September, barely restored us to May 2015 employment numbers
- The state had second largest increases in claims for week of December 26
- Finance and insurance is the only industry that is net positive today

Job Losses Since February Erase All Jobs Added Since Mid 2015

Change in the number of jobs statewide since May 2015 (excluding farming)

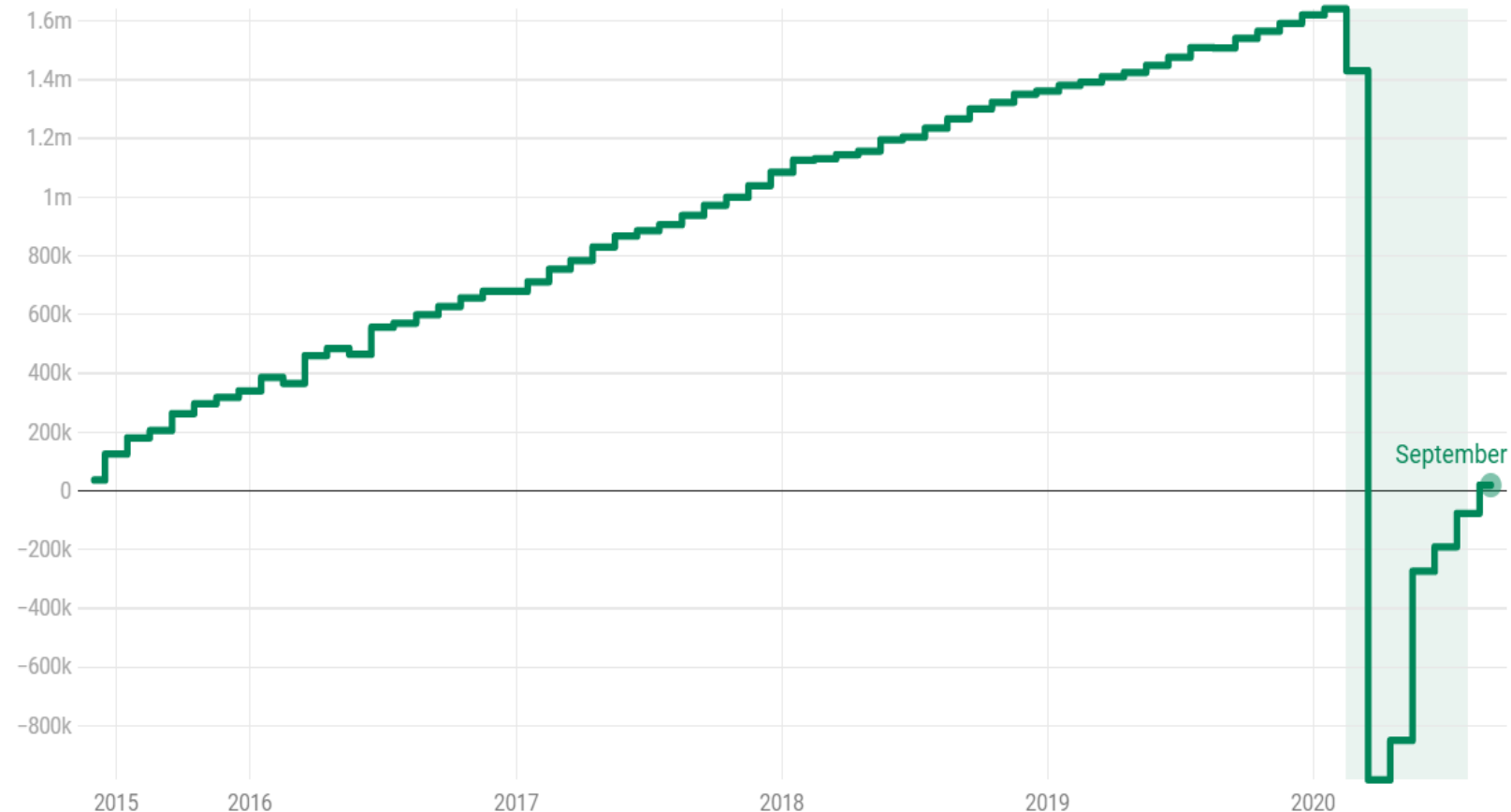


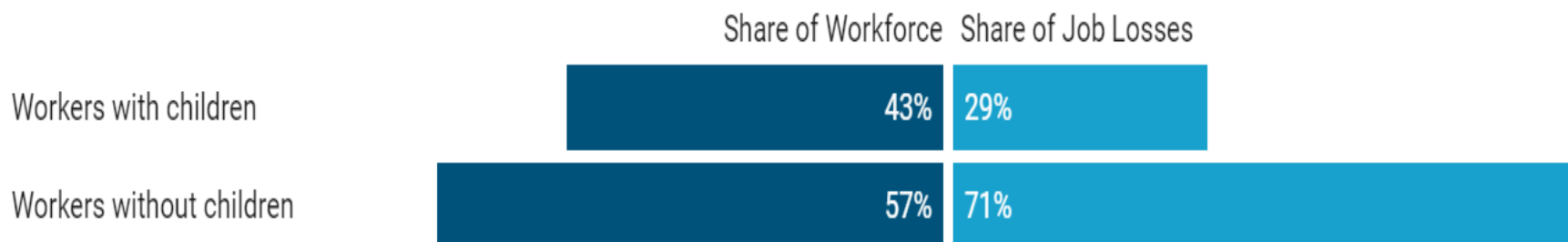
Chart: Legislative Analyst's Office • Source: Bureau of Labor Statistics • Created with [Datawrapper](#)

Impacts to California Unemployment

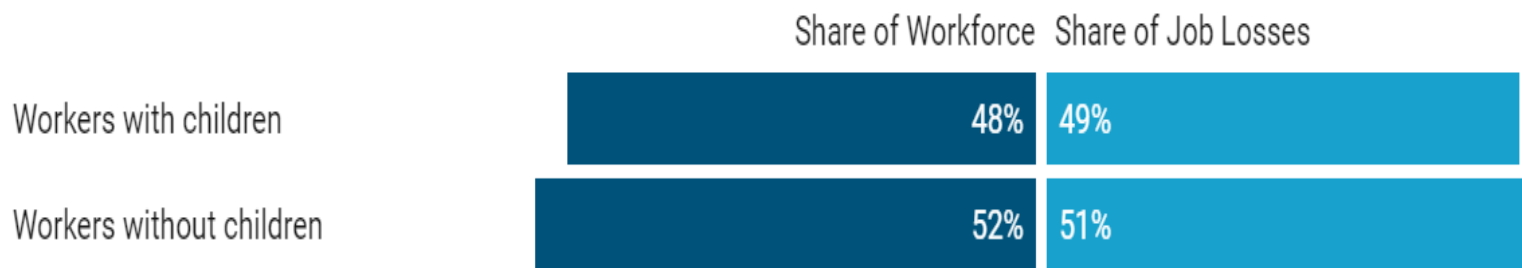
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- **Not all recessions are created equal**
 - **COVID-19 job losses concentrated among workers without children**
 - **Demonstrates disparate impact to younger workers in service sectors with leisure and hospitality being impacted the most**

COVID-19



Great Recession

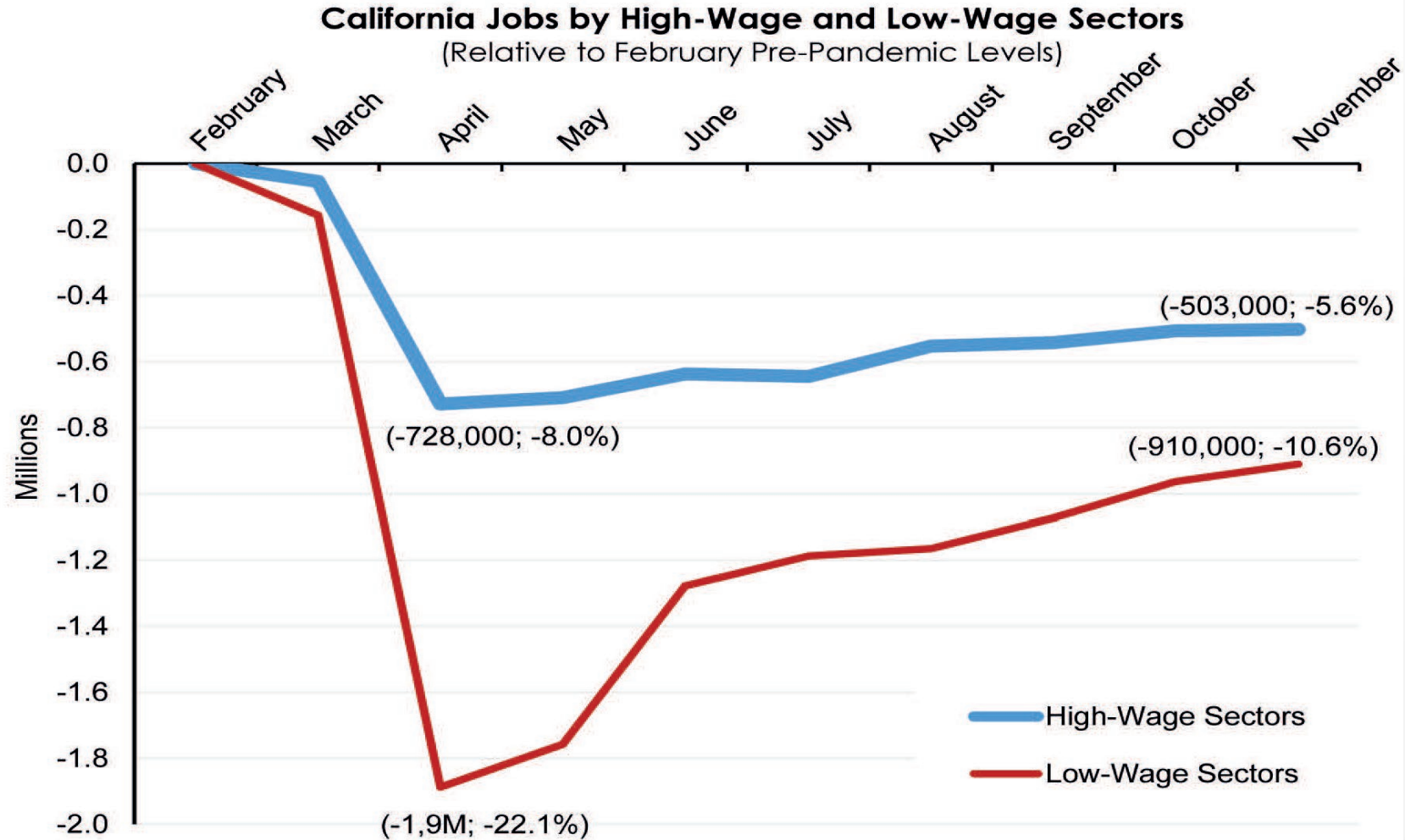


COVID-19: Share of workforce as of February 2020 and share of job losses as of September 2020. Great Recession: Share of workforce summer 2007 and share of job losses as of winter 2009/2010.

Chart: Legislative Analyst's Office • Source: Current Population Survey • Created with [Datavrapper](#)

California Jobs by Wage Sector

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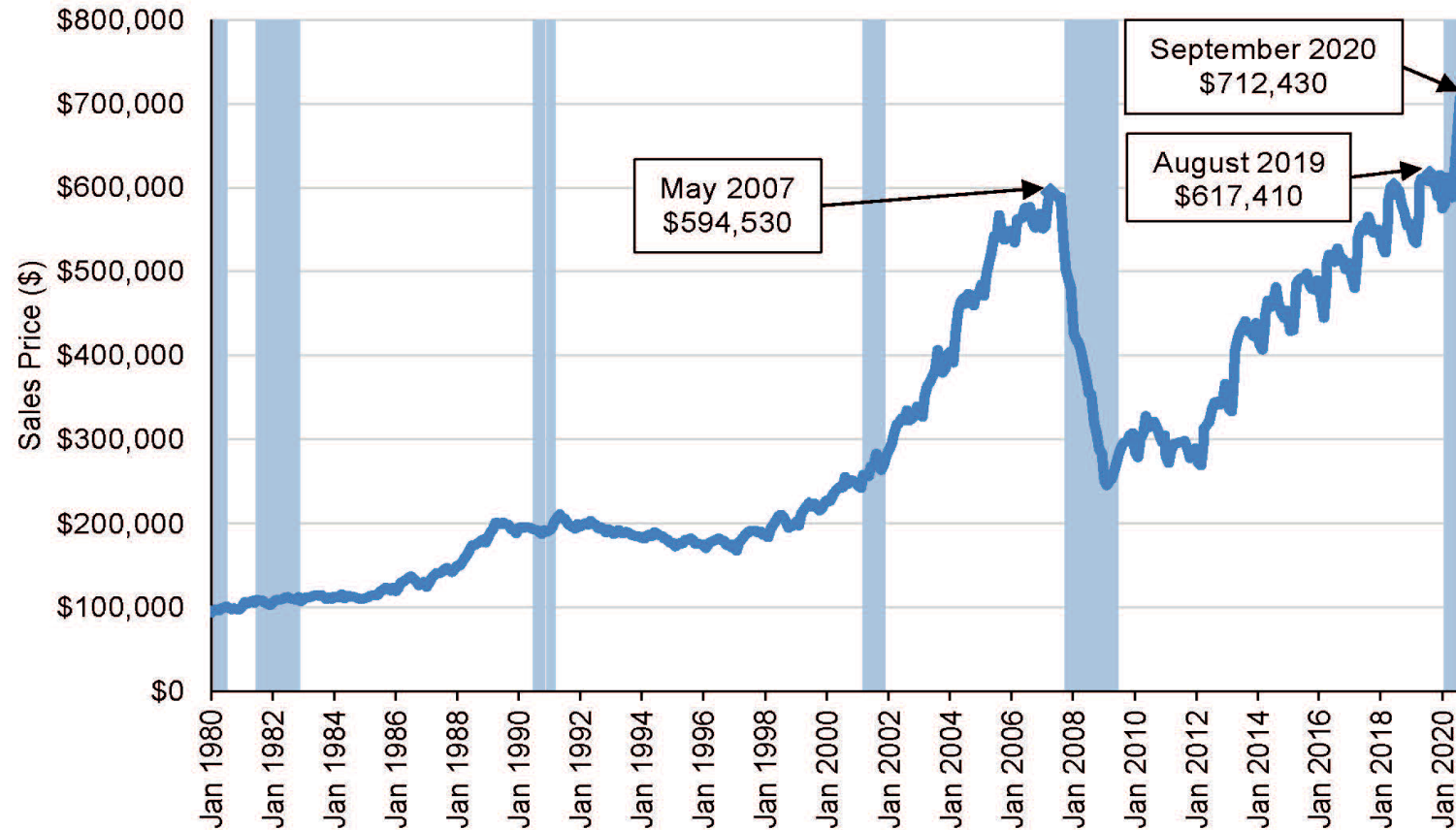


California Median Home Prices

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California Median Home Sales Price of Existing Single-Family Homes

Monthly, January 1980 through November 2020

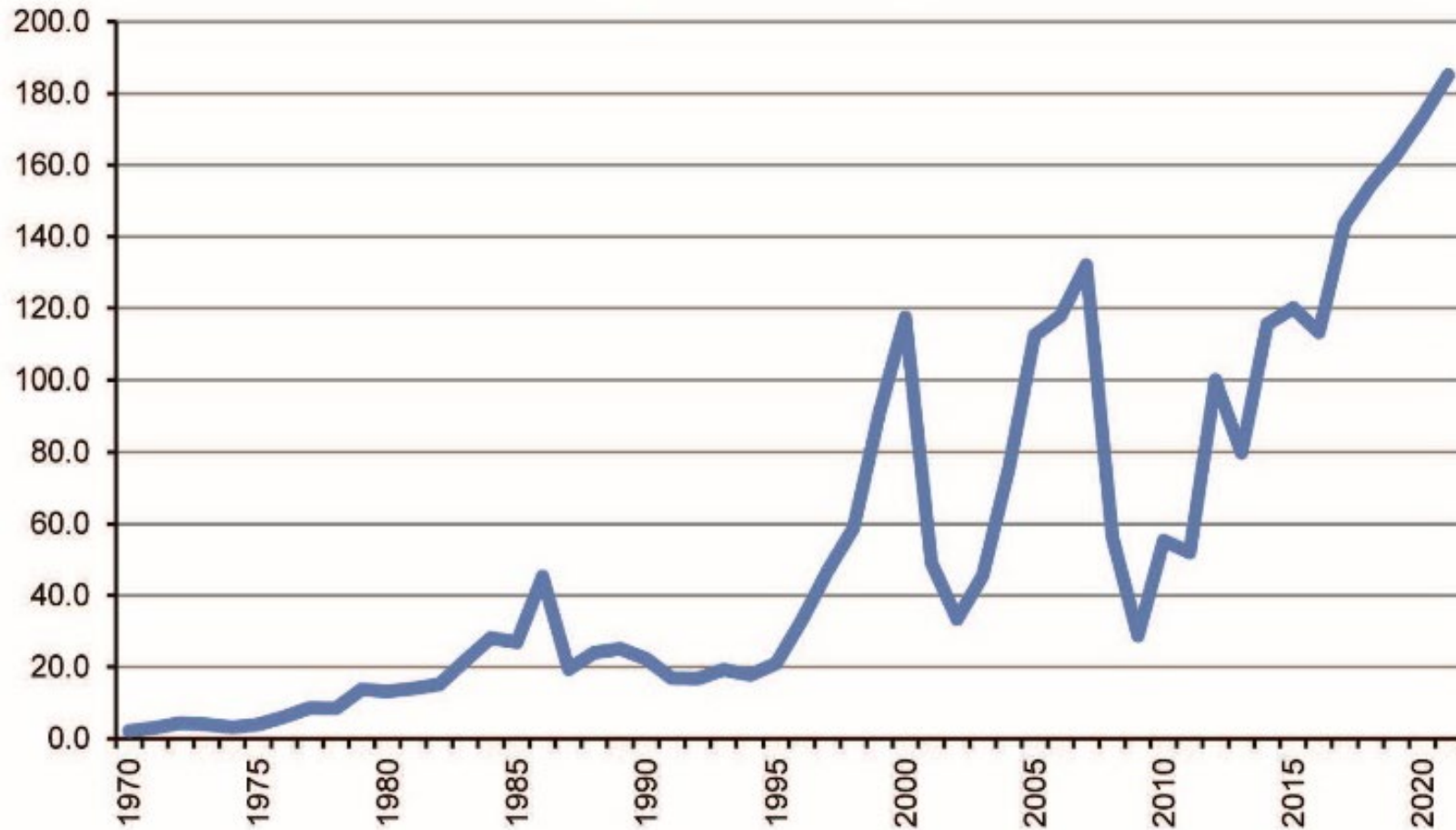


Shaded areas indicate U.S. recessions.
Source: California Association of Realtors.

Capital Gains—California

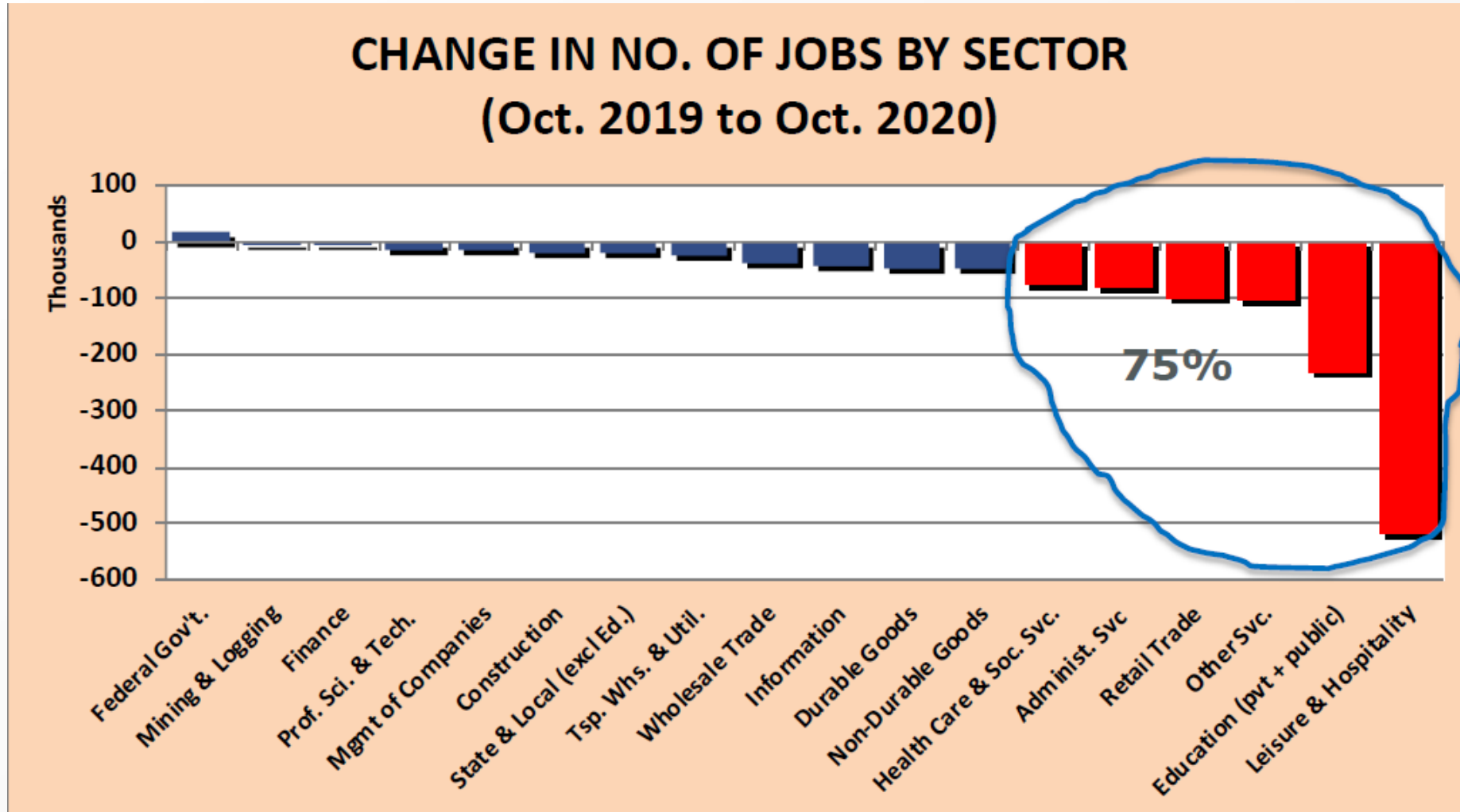
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Capital Gains Realizations
(Dollars in Billions)



Non-Farm Payroll Job Loss by Sector

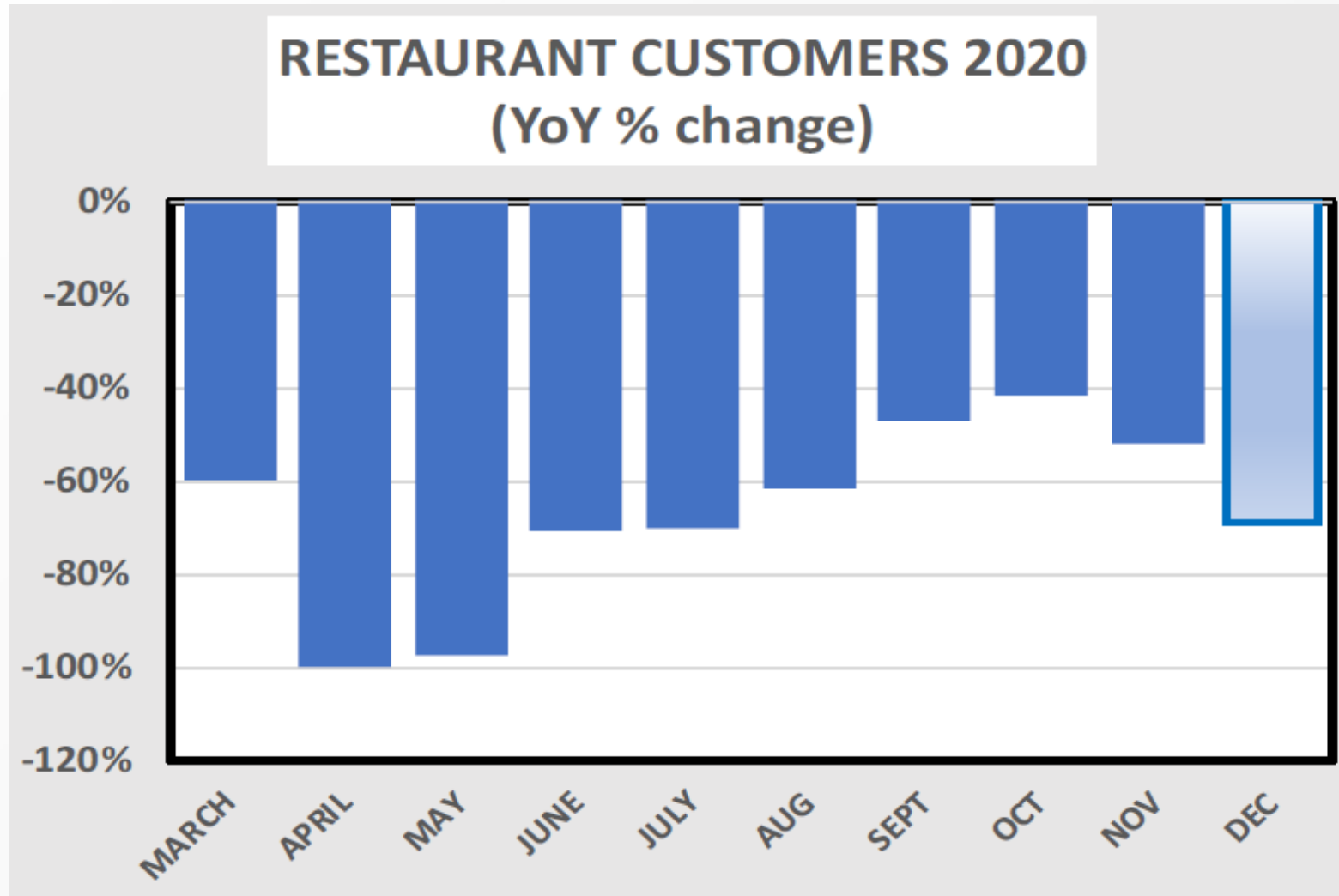
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Source: UCLA Economic Forecast, Dec 2020, from EDD.CA.GOV

Lock Down Impact on Restaurants

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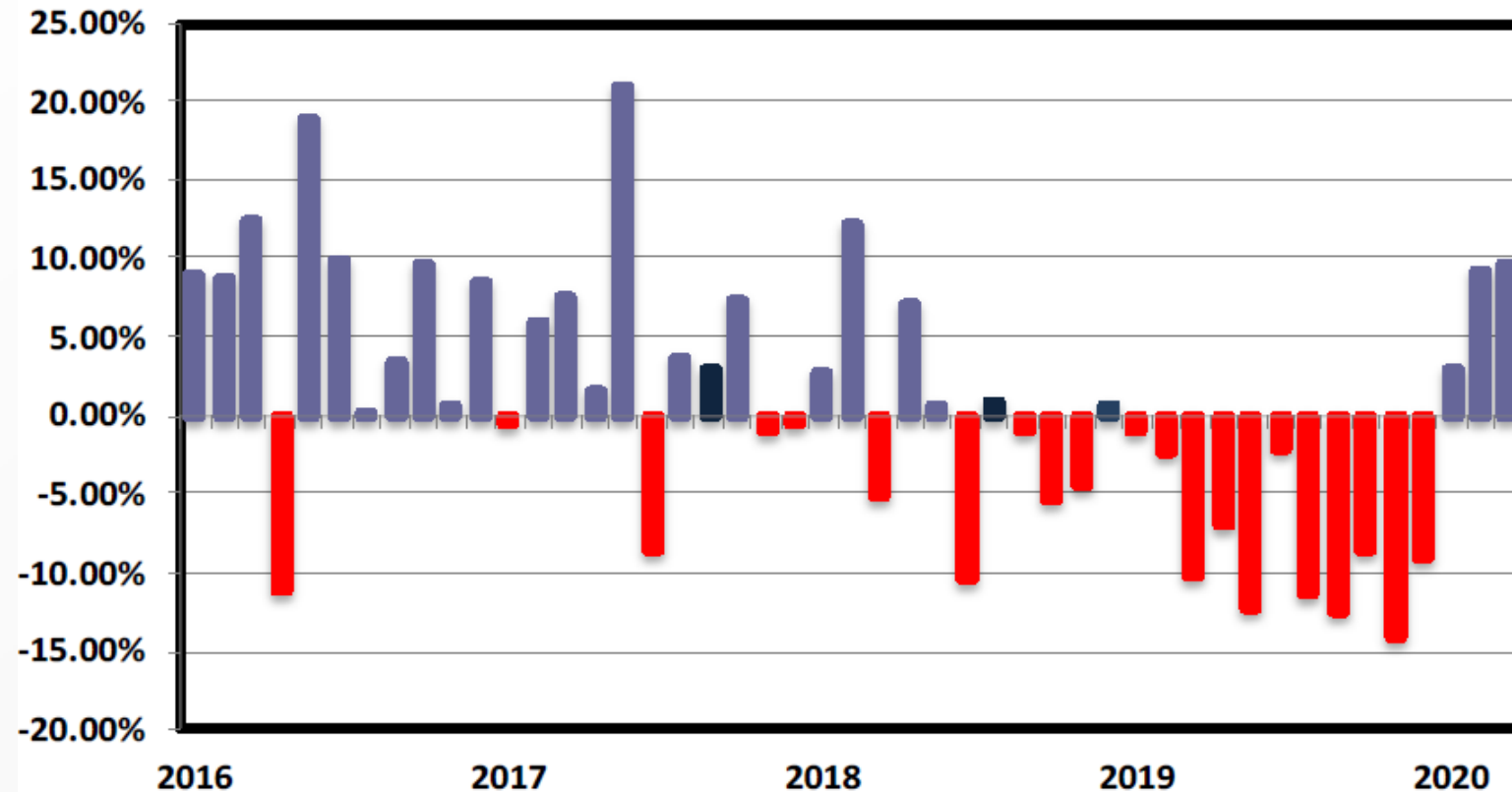


Source: Open Table

Seaport Traffic Rebounds

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YoY Change In Goods Movement: CA Ports (%, SA, TEU's, Oct. 2016 to Oct. 2020)



Sources: Port of Los Angeles, Port of Oakland, Port of Long Beach

UCLA California Forecast Key Indicators

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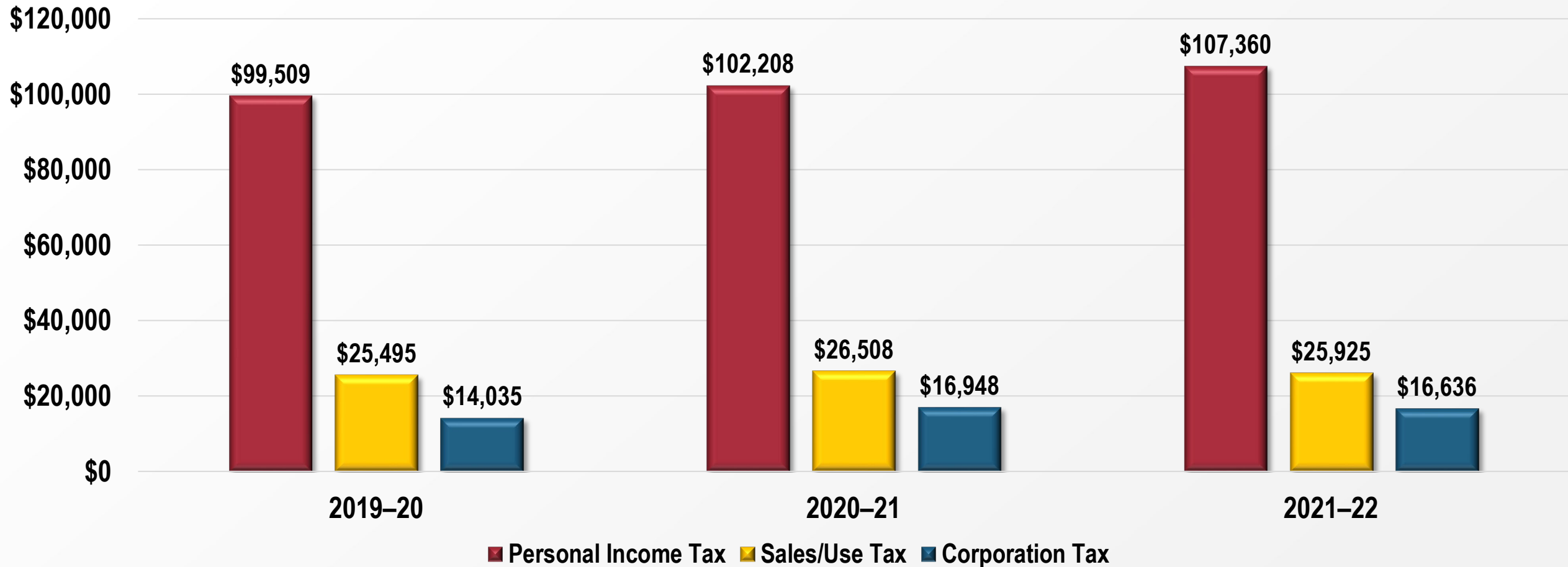
	2020	2021	2022	2023
Employment	-8.3%	6.1%	3.4%	2.2%
Unemployment	10.3%	6.9%	5.2%	4.4%
Housing (units)	106	123	129	132

- **Commercial real estate market collapse**
 - **Commercial real estate (office and retail) vacancy rates rising and work from home could be the start of a fundamental shift in how business gets done**
 - **Residential rental real estate in high-cost city centers**
 - **San Francisco rents down 25% since start of COVID-19**
 - **Fresno, Bakersfield, Chula Vista, and San Diego suburbs are beneficiary communities where rents are raising**
- **Ability of small businesses to endure pandemic economy**
- **Lower-than-expected roll out or efficacy of vaccination**
- **Many left the workforce due to lack of affordable childcare and the slower-than-expected reopening of schools**

Estimate for the Big Three Revenues

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Big Three Taxes
(in millions)



General Fund Budget Summary

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Resources & Expenses

Total available resources increase 1.48% in 2021–22, while expenditures increase by 5.53%

Reserves

The “Rainy Day Fund” reaches \$16 billion, or 9.83% of revenues

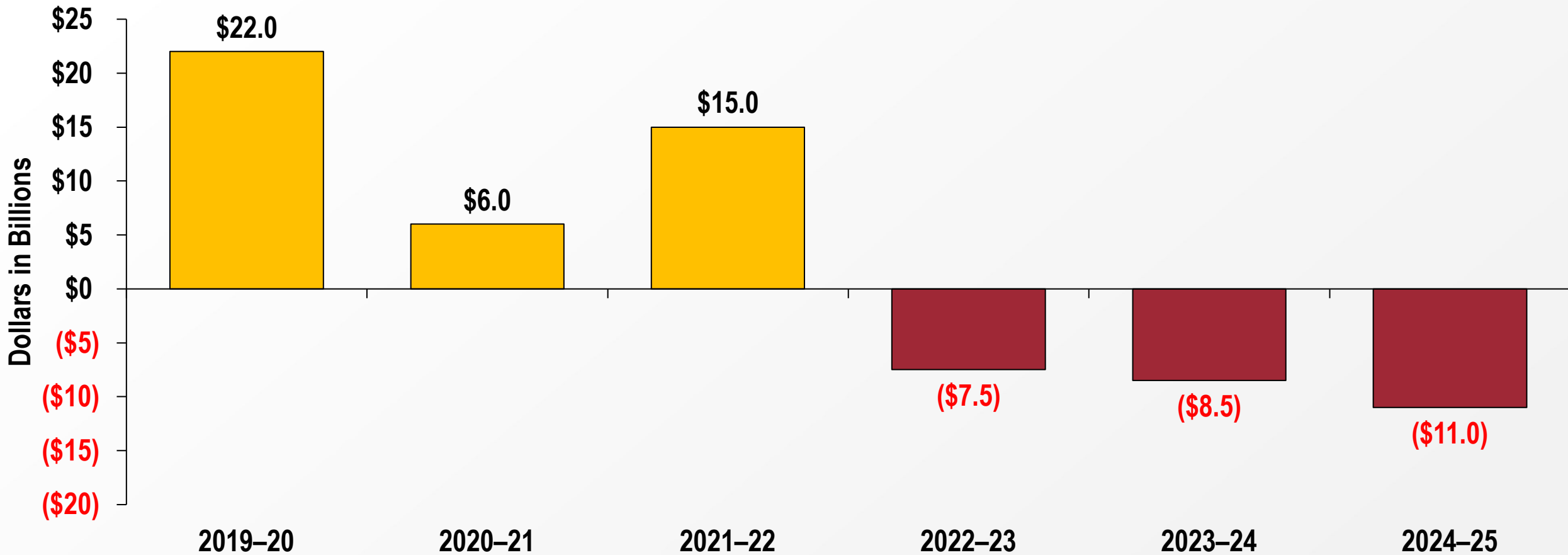
2021–22 General Fund Budget Summary (in millions)

	2020–21	2021–22
Prior-Year Balance	\$5,359	\$12,203
Revenues and Transfers	\$162,742	\$158,370
Total Resources Available	\$168,101	\$170,573
Non-Proposition 98 Expenditures	\$98,956	\$103,681
Proposition 98 Expenditures	\$56,942	\$60,834
Total Expenditures	\$155,898	\$164,515
Fund Balance	\$12,203	\$6,058
Reserve for Liquidation of Encumbrances	\$3,175	\$3,175
Special Fund for Economic Uncertainties	\$9,028	\$2,883
Public School System Stabilization Account	\$747	\$2,988
Safety Net Reserve	\$450	\$450
Budget Stabilization Account/Rainy Day Fund	\$12,536	\$15,574

Surplus and Shortfalls—California Budget

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Budget Projects Surplus and Future Shortfalls¹



¹Budget shortfalls or surplus, measured by the annual Governor's Budget

Source: 2021–22 Governor's Budget Summary, page 3

Proposition 98

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- Proposition 98 (1988) determines the minimum amount that the state must spend on K–12 and community colleges in any fiscal year based on the higher of three distinct “tests”
- The amount of the operative test each year determines the Proposition 98 Minimum Guarantee
- The state can spend less than (or “suspend”) the Minimum Guarantee with a two-thirds vote of the Legislature, which has only happened twice

TEST
1

K–14 education’s share of state General Fund revenues in 1986–87 (~38%)

Operative test for 2021–22, and has been for the last three fiscal years

TEST
2

Prior-year funding adjusted for average daily attendance (ADA) and changes in per capita personal income

This test is usually operative in a strong economy

TEST
3

Prior-year funding adjusted for ADA and changes in per capita General Fund revenue + 0.5%

This test is usually operative in a weak economy

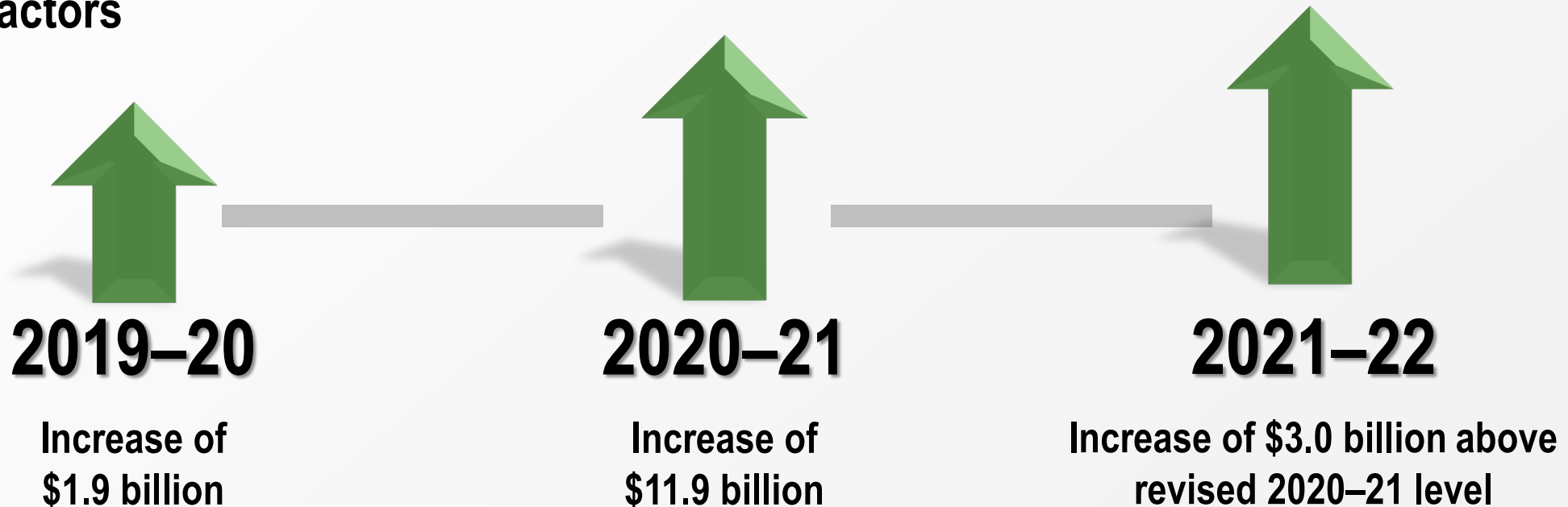


The Education Budget

Proposition 98

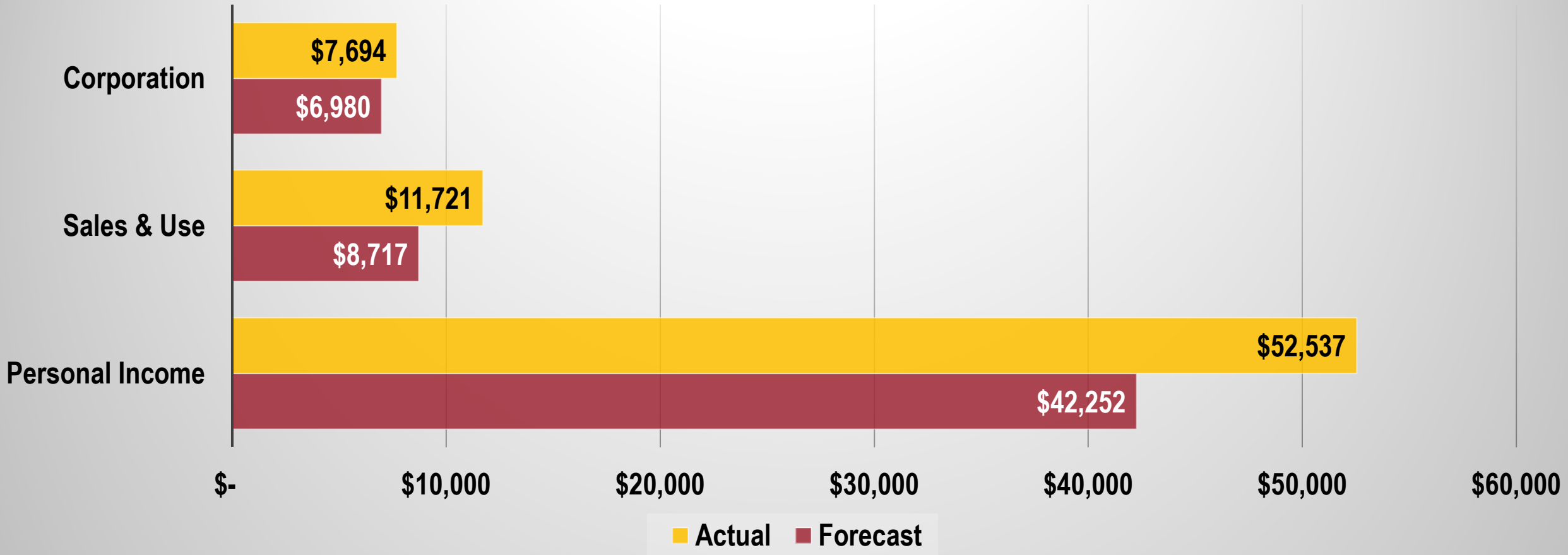
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- The K–14 education budget covers a period of three fiscal years
 - The Minimum Guarantee for the prior- and current-fiscal years is adjusted as part of the annual budget process—referred to as the “true up”—to ensure the state meets its annual constitutional obligation
 - The budget year Minimum Guarantee is based on current estimates of state revenue and other factors



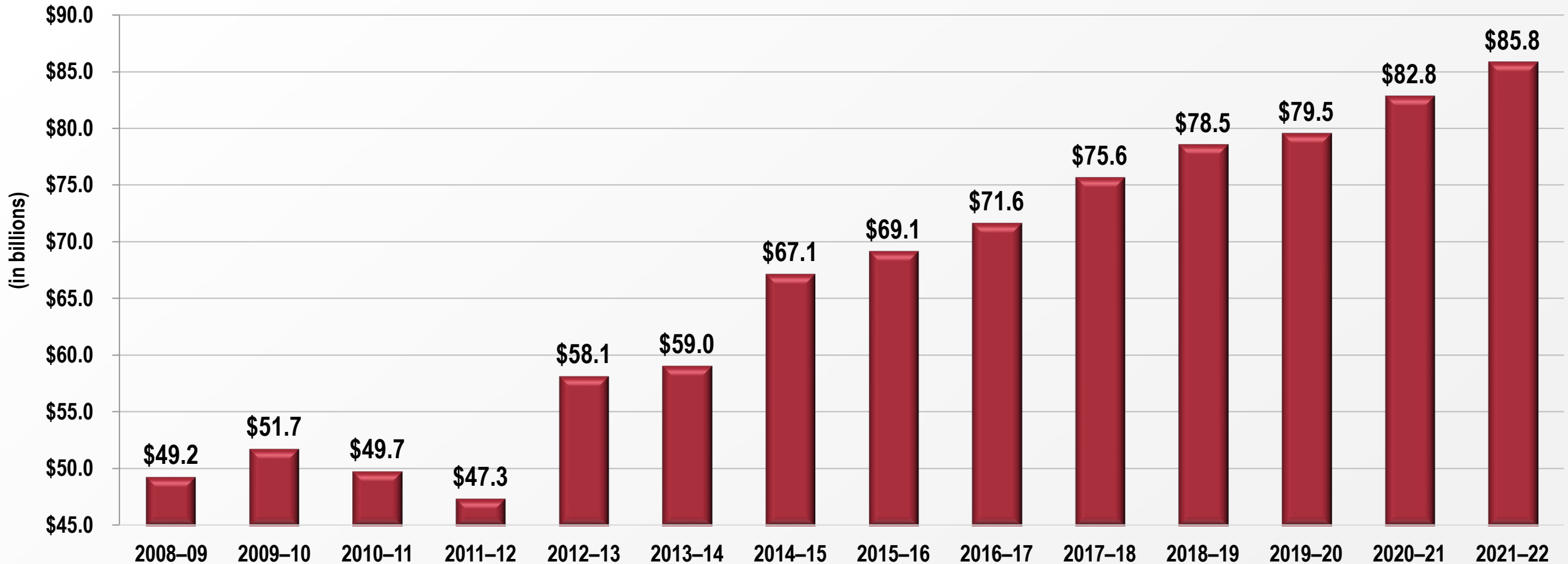
Current Revenues to Estimates

Big Three Taxes (in millions)



Source: Department of Finance (DOF) *Finance Bulletin*, December 2020

Proposition 98 Funding Over Time 2008–09 to Governor's 2021–22 Estimate



GANN LIMIT

1979

This will surely kick in someday.



Paul Gann



Jerry Brown



Linda Ronstadt

2021

That's twice in 42 years- Told ya, so!



Paul Gann



Jerry Brown

Rick Peltier

Proposition 98 Supplemental Payment

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The 2020–21 Enacted Budget established an obligation for the state to make supplemental payments to K–14 education that has two components

%
State
Revenues

Beginning in 2020–21, spend 1.5% of state General Fund revenues on K–14 education above the Minimum Guarantee, up to \$12.4 billion

Increase
K–14
Funding

Beginning in 2022–23, increase K–14 funding to equal 40% of state General Fund revenues in Test 1 years

The Governor proposes a one-time \$2.3 billion payment in 2021–22 while proposing to repeal the supplemental payment policy in the long-term

Proposition 98—Community Colleges

- **The California Community Colleges (CCC) will receive approximately 10.93% of the Proposition 98 share in 2021–22. Some of the significant provisions include the following:**
 - **\$23.1 million for 0.5% enrollment growth and \$111.1 million to reflect a 1.5% cost-of-living adjustment (COLA)**
 - **\$1.1 billion deferral pay down, leaving less than \$327 million for 2021–22**
 - **\$150 million for emergency financial assistance for low-income and working students**
 - **\$100 million to address food and housing insecurity among CCC students**
 - **\$30 million to support student technology access and internet connectivity**
 - **\$10.6 million to support the continuity of education and quality distance learning**
 - **\$15 million to augment the California Apprenticeship Initiative**
 - **\$20 million to expand work-based learning models and programs at community colleges**
 - **\$355.8 million in increased bond funds for capital outlay projects**
 - **\$2.5 million for community colleges to provide instructional materials for dual enrollment**

Minimum Wage Increases

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- **The California minimum wage has been increasing annually since 2017**
 - **The Governor may temporarily suspend the scheduled increase under certain circumstances**
 - **Although the economic criteria related to suspension were met for the current year, the Governor did not suspend the scheduled January 1, 2021, increase**

Minimum Wage	Effective Date: > 25 Employees	Effective Date: ≤ 25 Employees	Exempt Minimum Salary (Weekly)	Exempt Minimum Salary (Monthly)	Exempt Minimum Salary (Annually)
\$14.00/hour	January 1, 2021	January 1, 2022	\$1,120	\$4,853	\$58,240
\$15.00/hour	January 1, 2022	January 1, 2023	\$1,200	\$5,200	\$62,400

- **Local educational agencies are subject to state and federal minimum wage laws as well as any local ordinances**
- **What if the employee is telecommuting from a city or county where no local ordinances exist?**

Check your employee home addresses and cross reference with localities who have made modifications to the minimum wage to ensure you are following the law—employers are required to apply the wage that is most beneficial to the employee when there is a wage conflict



- Each ordinance defines the coverage and eligibility, and the rules vary
- The local ordinance is based on where the employee is working, so use caution and don't assume it doesn't apply
- The list of cities with minimum wage ordinances can be found here: https://www.dir.ca.gov/dlse/faq_minimumwage.htm

The Rest of the Budget

\$372 million for administration of COVID-19 vaccine

\$777.5 million for a California Jobs Initiative

\$14 billion for economic recovery and relief programs from COVID-19

\$1 billion for forest health and fire prevention strategy

\$1.75 billion for housing and homelessness initiatives

\$1.5 billion to achieve the state's zero-emission vehicle goals by 2035 and 2045

SSC Financial Projection Dartboard

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Lcff Planning Factors

Factor	2020–21	2021–22	2022–23	2023–24	2024-25
DOF Estimated Statutory COLA	2.31%	1.50%	2.98%	3.05%	N/A
SSC Recommended Planning COLA	0.00%	1.50%	1.28%	1.61%	1.90%

*Calculated by compounding the unfunded COLA of 2.31% from 2020–21 and the estimated statutory COLA of 1.50% in 2021–22

- **School Services of California Inc. (SSC) Recommended Planning COLA was calculated by SSC's independent economist**
- **In most years, the SSC estimates and the DOF estimates are very close, so we only include the DOF calculation on the dartboard**
- **Due to the large difference in the estimates, we have included our estimate for your consideration**

A bar chart consisting of three stacks of gold coins on a red surface. The tallest stack is on the left, the middle stack is shorter, and the shortest stack is on the right. The text 'The Road Ahead' is centered in white over the background.

The Road Ahead



The

CLOSED

State

Rick Palido

- There's no doubt that COVID-19 will continue to preoccupy our collective work
- And there is no doubt that our educational leaders will continue to rise to the occasion to address the multitude of needs of their students, families, and communities
- The Governor's Budget marks just the start of discussions about the best ways to marshal our resources for student access and success—we will have opportunities to lend our expertise to these decisions

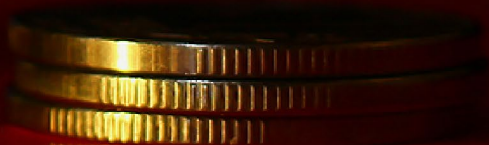
School Checklist

- Masks
- Sanitizer
- Disinfectant
- Plexiglass

Oh! Don't forget supplies!



Thank you!



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