California Federation of Teachers
AFT, AFL-CIO

2020-21 Budget Update: Department of Finance Releases Projections for California Budget Deficit in Advance of the May Revise

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This morning the California Department of Finance offered the first comprehensive preview of the state's economic indicators and finances since the start of the COVID-19 pandemic. The numbers are stark and are meant to foreshadow a painful "May Revise" budget proposal that Newsom will release next week.

Revenue and Deficit Projections

The Department of Finance (DOF) report is projecting unprecedented budget deficits for the current year (2019-20) and budget year (2020-21) that total $54.3 billion. For context, this overall deficit amount equals about 37 percent of the General Fund budget enacted for the current year, 2019-20 ($145.9 billion).

	Projected Deficit	Percent of 2019-20 General Fund Budget)
2019-20	$13.4 billion	9%
2020-21	$40.9 billion	28%
Total through June 30, 2021	$54.3 billion	37%

While these figures are still only estimates since the tax filing deadline has been pushed to July 15, DOF bases its analysis on several key revenue projections that show state general fund revenue to be $41.2 billion lower than assumed in January. The current year revenue is expected to be nearly $10 billion lower than previously estimated and 2020-21 revenue is now estimated to be $32 billion lower. At the same time, there are $13.1 billion in increased costs anticipated (related to the COVID-19 response).

The large revenue shortfalls reflect the impact of the economic downturn that is already being felt around the state: 4.2 million unemployment claims since mid-March with job losses overwhelmingly affecting lower-wage workers. DOF expects the 2020 unemployment rate to reach 18 percent, or nearly 1 in 5 workers in California. As a consequence, the DOF expects the primary sources of state General Fund revenue to be significantly lower in the coming year.

	Projected Decrease in 2020-21
Personal income Tax Revenue	-25.5%
Sales and Use Tax Revenue	-27.2%
Corporation Tax	-22.7%

If these projections are accurate, this could translate to a cut of $18.3 billion from the General Fund budget for K-12 schools and community colleges, as per the Proposition 98 calculation. These figures imply a re-benching that reduces funding in the current year and a deep deficit to address in the budget year.

Though the DOF calculates this potential cut of more than $18 billion to Prop. 98, the analysis is not a budget proposal. As EdSource reports:

> "Education officials are not expecting Newsom to force an $18 billion cut on school budgets. That would be the impact if Newsom funded the minimum level required under Proposition 98 … In his March 13 executive order, Newsom promised to fully fund districts and charter schools for 2019-20, holding them harmless at the Prop. 98 level that the Legislature passed last June, as long as they provide distance learning, meals for low-income students and child care for essential workers. He hasn't indicated he'd renege on that promise. Next year's funding, when the full brunt of the recession will be felt, is what is endangered."

Reserves and Federal Aid

California's reserves and Rainy Day Fund balances are also revised downwards with the pandemic recession. In January, the DOF estimated $21 billion total in reserves, with $18 billion in the Rainy Day Fund. Today, the balance of the Rainy Day Fund is revised down to $16 billion, while the projected deficit is about 3.5 times greater. There is another $377 million in the reserves earmarked for K-14 education. Current law allows up to half of the balance of these funds to be withdrawn in the first year the fund is accessed.

California is expecting over $15 billion of federal stimulus funding, primarily from the CARES Act. Of this, $3.7 billion is earmarked for education. These funds will fall far short of what our state needs.

The magnitude of the DOF projections and the unimaginable impact the cuts would have underscore the critical importance of additional federal aid to the states. CFT joins AFT in calling for another $1 trillion stimulus package for states. This new stimulus package should focus on support for state and local government to stabilize public services. This would include:

- $175 billion for the Education Stabilization Fund – to provide direct funding to local education agencies and higher education institutions
- $50 billion for Higher Education – to provide direct funding to public colleges and universities and minority-serving institutions
- $25 billion for Title I and IDEA – to support programs that help vulnerable students and make up for instructional time lost in this academic year
- $500 to support the National Governors' Association ask to address states' budget shortfalls resulting from COVID-19.

Next Steps for the Budget

Importantly, the report released today is an update on the administration's analysis of the state's fiscal condition and budget outlook for California; it is the first such analysis since the COVID-19 pandemic began. The Governor will submit a workload budget to the Legislature next week that is based on these data. The Legislative Analyst's Office will also issue its fiscal projections in advance of the May Revise.

The May budget proposal is expected on May 14, the constitutional deadline, and it will include the governor's proposals for addressing the shortfalls, including measures to mitigate the implications. It will likely include cuts and proposals affecting the current year budget, and incorporate plans to maximize the impact of the Rainy Day Fund and federal funds. The Legislature's budget committees will then consider the budget proposals and must pass a budget by June 15, so it can be enacted by July 1, the start of the fiscal year. However, since the state tax filing deadline was extended to July 15, legislators are expecting the 2020-21 budget will be updated in an "August Revise" process, when better revenue estimates will be available.

Budget Must Prioritize Education

There will be no recovery without public education. The Governor and legislature must understand the critical role that our public education system plays; a functioning public education sector will be an essential part of California's road to recovery and health.

The projections released today would have devastating consequences for our students' recovery from the pandemic and pose a direct threat to their future without actions to mitigate the cuts. Congress must immediately pass a $1 trillion stimulus bill that directly invests in the states, cities, counties, schools, and colleges. The education of a generation of Californians is at risk.

This reality also underscores the importance of the Schools and Communities First initiative, which will be on the ballot in November. The initiative will generate $13 billion in essential funding to schools and local services and this kind of action is exactly what is needed in this time of recession.

A just recovery from an economic downturn of this magnitude will require bold and equitable economic policies. During the Great Recession a decade ago, 33 states raised taxes. In the recession of the 1990s, 4 states raised taxes. These actions were critical in mitigating the need for even deeper cuts and sped up the post-recession economic recovery.