



December 23, 2020

The Honorable Toni G. Atkins
 Senate President pro Tempore
 State Capitol, Room 205
 Sacramento, CA 95814

The Honorable Anthony Rendon
 Speaker of the Assembly
 State Capitol, Room 219
 Sacramento, CA 95814

RE: Early Action to Eliminate K-14 Deferrals

Dear Pro Tempore Atkins and Speaker Rendon:

The undersigned K-14 education organizations support early action to eliminate the \$12.5 billion in current year deferrals and provide \$900 million, 2.31 percent, in a statutory cost-of-living adjustment.

The Budget Act of 2020 included \$1.9 billion of Local Control Funding Formula (LCFF) apportionment deferrals in 2019-20, growing to \$11 billion LCFF apportionment deferrals in 2020-21. These deferrals allowed LCFF funding to remain at 2019-20 levels in both fiscal years, but suspended the statutory LCFF cost-of-living adjustment in 2020-21. While the budget did not impose cuts, the

large payment deferrals require districts to rely heavily on reserves and/or short-term borrowing and the costs associated to address cash flow issues. These challenges and additional borrowing costs could be mitigated with the elimination of the current year deferrals.

While the most recent budget news from the Legislative Analyst's Office 2021-22 Fiscal Outlook and recent cash flow reports from the Department of Finance are encouraging, it is unclear whether the economic performance is sustainable for the medium or long term. The higher than projected revenue numbers are largely due to the resilience of the stock market and the strong earnings for California's high net worth residents — a group that provides about a third of all the state's tax revenue. High unemployment in California — among the nation's highest at 8.2 percent — has been balanced by robust revenue from personal income taxes and capital gains, which increased by 22 percent or \$11 billion in Quarter 1 and the first portion of Q2. A sharp drop in the stock market could quickly cloud the unexpectedly sunny forecast.

Eliminating the deferrals will improve cash flow for schools and community colleges, thereby reducing the need for internal or external borrowing while also removing future pressure on Proposition 98 funding. Further, it allows the legislature more options to address economic down turns by replenishing the tools in its tool kit (such as deferrals) as this COVID-19 pandemic continues to evolve.

For these reasons, on behalf of our students, schools, and community colleges, we urge the legislature to take early action to eliminate current year deferrals and provide a statutory cost-of-living adjustment.

Sincerely,



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Legislative Advocate
California School Boards Association



Elizabeth Esquivel
Senior Director of Policy and Governance
California Association of School Business
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Jeff Frost
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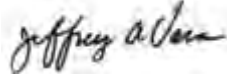
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Executive Director
Small School Districts' Association

cc: The Honorable Gavin Newsom
Kimberly Rodriguez, Office of Senator Toni Atkins
Megan Baier, Office of Senator Toni Atkins
Misty Fuesahrens, Office of Assembly Member Rendon
Monica Henestroza, Office of Assembly Member Rendon
Joe Steppenshaw, Senate Budget and Fiscal Review Committee
Elisa Wynne, Senate Budget and Fiscal Review Committee
Christian Griffith, Assembly Budget Committee
Erin Gabel, Assembly Budget Committee
Keely Bosler, Department of Finance
Jeff Bell, Department of Finance
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