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FANTASTIC FISCAL NEWS FOR OUR SCHOOLS IN 2022-23!!

Every year, the non-partisan Legislative Analyst Office (LAO) publishes the *Fiscal Outlook* in anticipation of the 2022-23 state budget process. On November 18, 2021, Legislative Analyst Gabriel Patek, released the report, *The 2022-23 Budget: California's Fiscal Outlook*. The report reveals that, despite the ongoing pandemic and its economic impact on California, revenues are growing at “historic rates” and it is estimated California will have a \$31 billion surplus (the difference between projected revenues and spending under current law and policy) to allocate in 2022-23. Increased September 2021 collections from the three largest taxes (personal income, sales, and corporation) were 40% higher than September 2020 and almost 60% higher than September 2019. Per the LAO, retail sales have posted double digit growth in 2021, stock prices have doubled from their low in the spring of 2020 and several major firms have posted historically high earnings. All of these factors contribute to the forecasted surplus!



The LAO cautions us that while \$31 billion surplus is forecasted, revenues could easily end up tens of billions of dollars above or below the forecasted surplus if revenues in 2021-22 and 2022-23 are lower than projected. The surplus could be as low as \$10 billion or as high as \$60 billion. Also important to note is that Congress passed the Infrastructure Investment and Jobs Act recently and an updated inflation information has become available. The budgetary impacts of these changes have not been evaluated by the LAO and are not included in the fiscal analysis report.

The \$31 billion surplus is great news for our public schools! Every year, the “minimum guarantee” for school and community college funding is calculated based upon a set of formulas established by Proposition 98 (1988). Based upon the LAO’s revenue projections that are significantly above the June 2021 estimates, it is estimated the guarantee in 2022-23 is \$11.6 billion (12.4 percent) above the 2021-22 enacted budget level. It is estimated **\$20 billion is available for new commitments**, including \$10.2 billion in one-time funds related to

2020-21 and 2021-22 and \$9.5 billion in ongoing funds related to 2022-23. This is indeed good news for our public schools and for our students!



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The LAO identifies higher costs in 2022-23, such as the estimated \$2.3 billion for commitments made in the 2021-22 state budget for the expansion of Transitional Kindergarten, Expanded Learning Opportunities Program, Transitional Kindergarten staffing, school meal reimbursements and special education that the Legislature must consider in deciding how to allocate the surplus funding.

The report cautions the Legislature that they will need to address the following issues in determining how to allocate the projected surplus:

- Attendance declines will likely affect the LCFF funding of every school district in 2022-23.
- Pension costs are expected to increase for public schools and community college districts.
- Significant amounts of unspent federal funding for K-12 schools to address learning loss, reopen schools and to cover other pandemic related costs. The majority of these funds must be spent by September 2024. As of September 2021, California schools reported spending less than 15% of available federal funds. Compounding this situation, the LAO states that an additional \$4.6 billion in one-time Prop 98 funds was allocated to schools for similar purposes.

It is recommended that the Legislature consider the following in preparing for the upcoming budget hearings for the 2022-23 state budget:

- Setting aside some 2022-23 funds for one-time activities in order to mitigate downside risk.
- Consider allocating additional funding in a manner that would build upon existing initiatives, improve services in targeted ways and/or address historical funding disparities, such as:
 - Accelerate the Expanded Learning Opportunities program (ELO-P)
 - Equalize LCFF Add Ons.
 - Fund implementation of Special Education reforms.
 - Address pension liabilities and costs.
 - Improve climate resiliency and emergency preparedness of school districts.
 - Make optional Prop 98 reserve deposit.

It looks like a good year for 2022-23! Stay tuned for budget updates in 2022-23!!

