Governor Newsom released his proposed 2022-23 budget proposal today, which focuses on fighting the COVID-19 pandemic, combating the climate crisis, addressing homelessness (including conservatorship), tackling the cost of living in California, and education.

The budget includes a projected surplus of $45.7 billion, including $20.6 billion in General Fund dollars, $16.1 billion in additional Proposition 98 funds for TK-14, and $9 billion in reserve deposits and supplemental pension payments. It provides $34.6 billion in reserves, including: $20.9 billion in the Proposition 2 Stabilization Account (also known as the Rainy Day Fund); $3.1 billion in the Public School System Stabilization Account (PSSSA); $900 million in the Safety Net Reserve; and $3.1 billion in the state’s operating reserve. The State’s Rainy Day Fund is at its constitutional maximum, comprised of 10 percent of General Fund revenues, which will now require $2.4 billion dedicated to infrastructure investments in 2022-23.

The State Appropriations Limit, also known as the “Gann Limit,” is projected to be triggered for fiscal years 2020-21 and 2021-22, requiring funds above the limit to be distributed between taxpayers and schools. State deposits into reserve accounts do count towards the State Appropriations Limit, which could make balancing spending priorities complex. The final numbers for these two fiscal years will be provided in the May Revision.

The budget proposes to allocate an additional $1.4 billion to continue efforts to increase COVID-19 vaccination rates and expand testing for the remaining 2021-22 fiscal year, as well as $1.3 billion to continue these efforts for 2022-23.

**Economy**

Business tax credits, including research and development credits and net operating losses, which were limited over the past few years, are proposed to be restored with an additional $250 million per year for three years to California companies investing in mitigating climate change. The total planned cost for 2022-23 to provide these tax credits is $5.5 billion. A new tax credit for businesses that create green energy technologies of $100 million per year for three years is proposed as well. Approximately 40 percent of tax credit/exemptions come from revenues that would have otherwise been allocated to Proposition 98.

**Education**
The budget proposes a historic $102 billion in Proposition 98 funding for TK-12 schools and community colleges for 2022-23, reflecting an increase of $8.2 billion above what was provided in the 2021 Budget Act. These amounts reflect $15,261 in per pupil in Proposition 98 funding and $20,855 per pupil including all other funding sources. Proposition 98 is projected to remain in Test 1 for 2020-21 through 2022-23, meaning that the total funding levels represent 38.02 percent of the total amount of General Fund revenues, including local property tax revenues. This percentage is slightly increased to 38.4 percent of General Fund revenues to accommodate the expansion of Universal Transition Kindergarten for 2022-23.

Increased revenues have resulted in increases to Proposition 98 funding in 2020-21, which is now estimated at $95.9 billion; $99.1 billion is estimated for 2021-22, and the new estimate for 2022-23 is $102 billion, increasing the total three-year increase of $16.1 billion over funding levels reflected in the 2021 Budget Act.

An inclusion of $3.1 billion payment into the PSSSA will increase the total balance to $9.7 billion by the end of 2022-23. Under existing law, a cap of ten percent is triggered on school district reserves in fiscal years immediately succeeding those that saw a PSSSA balance equal to or greater than three percent of the total K-12 share of the Proposition 98 Guarantee. Since a balance of $6.7 billion was achieved in 2021-22, school district reserve caps will be triggered beginning in 2022-23.

A cost-of-living adjustment of 5.33 percent is provided to the Local Control Funding Formula (LCFF), resulting in $3.3 billion in additional discretionary funding for local Education agencies (LEAs). An increase of $295 million ongoing Proposition 98 General Fund dollars is also provided to reflect a 5.33 percent cost-of-living adjustment for Special Education, Child Nutrition, Youth in Foster Care, Mandates Block Grant, Adults in Correctional Facilities Program, American Indian Education Centers, and the American Indian Early Childhood Education Program.

Due to the pandemic, the past two budgets have included hold harmless provisions to stabilize school funding for LEAs facing high absenteeism and enrollment declines. The budget is proposing to amend the LCFF calculation to consider the greater of a school district’s current year, prior year, or the average of three prior years’ ADA, as well as the independent study program, to help districts to manage declining enrollment while simplifying how attendance is collected in virtual instruction programs.

The budget also proposes an additional $1 billion to continue the expansion of Universal Transitional Kindergarten, increasing access to approximately 56,000 children, while reducing student-to-adult ratios. Specifically, this would include $639.2 million General Fund dollars to expand eligibility, which would also be used to re-bench the Proposition 98 Guarantee, as well as $383 million Proposition 98 General Fund dollars to add an educator to every transitional kindergarten class, reducing the student-to-adult ratio to better align with the State Preschool Program.
To address teacher recruitment and retention, the budget waives specific teacher examination fees and encourages the establishment of new integrated teacher preparation programs to address the existing teacher shortage. School districts are additionally allowed to choose between traditional independent study and course-based independent study by allowing synchronous instruction to count for instructional time in traditional independent study, in addition to student work product and also by providing flexibility on the timeline for a LEA to collect a signed independent study plan.

A total of $3.4 billion ongoing Proposition 98 General Fund dollars are provided to expand after-school and summer programs to address learning gaps created by the pandemic, which will support access to expanded-day, full-year instruction, as well as enrichment for all elementary school students, while focusing on LEA’s with the highest numbers of low-income students, English language learners, and youth in foster care. $937 million one-time Proposition 98 General Fund dollars are also proposed to support Expanded Learning Opportunities Program infrastructure, focusing on integrating arts and music programs into the student enrichment options.

The budget recognizes that many children with disabilities are also English learners, come from low-income families, and/or are served by the foster care system, which compound equity challenges. The budget proposes $500 million in ongoing Proposition 98 General Fund dollars to increase the special education funding formula, paired with the following policy changes:

- Improve the ability of LEA’s to project their special education funding allocations and commence program planning, amend the special education funding formula to calculate its base funding allocations at the LEA level, rather than the special education local plan area (SELPA) level.
- Consolidate two special education extraordinary cost pools into a single cost pool to simplify the formula.
- Allocate educationally-Related Mental Health Services funding directly to LEA’s instead of SELPA’s.
- Develop a Special Education Addendum to the Local Control and Accountability Plan (LCAP) to support inclusive planning and promoting cohesion by linking special education and general education planning, allowing parents to have a role in the LCAP development process.
- Support efforts to develop comprehensive Individualized Education Programs (IEPs) by focusing a special education resource lead on best practices and establish an expert panel to continue creating a model IEP template.
- Establish an alternative diploma and workgroup to explore alternative coursework options for students to demonstrate completion of state graduation requirements.

An investment of $1.5 billion Proposition 98 General Fund is proposed to support the creation of college and career pathways which focus on education, health care, technology, and climate-related fields. This pathway is intended to help students to move seamlessly from high school to college then to a career and will focus on creating local partnerships that bring schools, higher
education institutions, and employers. A total of $500 million one-time Proposition 98 General Fund dollars are additionally available over four years to expand student access and participation in dual enrollment opportunities.

School bus fleets are proposed to transition from diesel to electric vehicles through $1.5 billion in one-time Proposition 98 General Fund dollars over three years. School nutrition programs will continue to expand through $596 million Proposition 98 General Fund dollars to continue to fund universal access to subsidized school meals. Additionally, $450 million one-time Proposition 98 General Fund dollars are available over three years for school kitchen infrastructure and equipment upgrades to incorporate more fresh, minimally processed California-grown foods, including $3 million to support the School Breakfast and Summer Meal Start-Up and Expansion Grant Program. Finally, $60 million one-time General Fund dollars over two years are provided to support the California Farm to School Program, connecting local producers and school food buyers and increasing food education opportunities.

To address teacher recruitment and retention, the budget waives specific teacher examination fees and encourages the establishment of new integrated teacher preparation programs to address the existing teacher shortage. School districts are additionally allowed to choose between traditional independent study and course-based independent study by providing synchronous instruction to count for instructional time in traditional independent study, in addition to student work product and also by providing flexibility on the timeline for a LEA to collect a signed independent study plan.

A total of $130 million one-time Proposition 98 General Fund dollars are provided through the Adult Education program to support healthcare-focused vocational pathways for English language learners at multiple levels of English proficiency to increase language and cultural diversity in these settings.

The inclusion of $10 million General Fund is proposed to expand early literacy efforts by creating a partnership between the California Department of Public Health and First 5 California for the administration of a statewide program to provide multilingual books and early literacy programming for families with young children. This proposed program would work in collaboration with state programs such as home visiting, child care, early childcare centers, and foster care. The following early literacy programs are proposed:

- $500 million one-time Proposition 98 General Fund dollars, over five years, for grants to high-needs schools to train and hire literacy coaches and reading specialists to guide productive classroom instruction and offer one-on-one and small group intervention for struggling readers.
- $200 million one-time Proposition General Fund dollars to establish a grant program for LEAs to create or expand multi-lingual school or classroom libraries that offer culturally relevant texts to support reading instruction.
• $2 million one-time General Fund dollars for incorporating early identification for learning disabilities into the state's preschool assessment tools, including a process for follow-up by expert evaluators.

**Educator Support**

A total of $54.4 million comprised of Proposition 98 General Fund, as well as General Fund dollars are provided to build upon the multi-year investments providing support to help schools hire qualified teachers and substitutes. Much of this is provided through General Fund, not Proposition 98 dollars.

The following proposals are included in the budget:

• $24 million one-time General Fund dollars to waive certain teacher examination fees;
• $12 million one-time General Fund dollars to extend the waiver of select credentials fees;
• $10 million one-time General Fund dollars to support competitive grants provided to public and private institutions to develop and implement integrated teacher preparation programs;
• $5.2 million Proposition 98 General Fund dollars and $322,000 General Fund dollars to re-establish the Personnel Management Assistance Teams program to assist LEAs in improving hiring and recruitment practices;
• $1.4 million General Fund dollars to create career counselors for potential teachers at the Commission on Teacher Credentialing (CTC);
• $924,000 General Fund dollars to support the CTA’s administration of multiple grant programs and fee waivers;
• $900,000 General Fund dollars for the CTC for a contract to promote educational careers in California’s schools;
• Extending the current statute that authorizes a holder of a credential or permit issued by the CTC to serve as a substitute aligned with their authorization, including for staff vacancies, for up to 60 cumulative days for any one assignment.

**Early Childhood**

A total of $5.8 billion (including $2.3 billion in General Fund dollars) is proposed for child care programs, including a multi-year commitment to rate increases taking place this month, supplemental funding to providers, infrastructure grant program funding, and child care slots. Of these funds, $309 million are proposed to be allocated to the State Preschool program to enhance services to dual language learners and students with disabilities. The budget also creates an additional 36,000 slots on top of the 110,000 slots that were added in the 2021 Budget Act with a stated goal of creating 200,000 additional slots by 2025-26. Specifically, these funds will be provided for providers to serve at least 10 percent of students with disabilities as well as to provide additional supportive services for dual language learners. Once student eligibility is confirmed in the program, all students will maintain continuous eligibility for 24 months. Should a student have an IEP, they will be categorically eligible to participate in State Preschool. Provider expansion to serve two-year-old children will be allowed for providers who
have already served eligible three- and four-year-olds. Further, $500 million one-time Proposition 98 General Fund dollars are provided to support the Inclusive Early Education Expansion Program, funding necessary infrastructure to support general education and special education students in inclusive classrooms.

$823.7 million for 36,000 additional subsidized slots are proposed to implement the Master Plan for Early Learning and Care, which would bring the total combined slots funded through the 2021 Budget Act, and this proposal to over 145,000. A full year of rate increases would be provided by $373 million, as discussions with stakeholders regarding rate reform continues.

Additional proposals include the following:

- $25 million for the Child Care Initiative Project through June 30, 2023, which would address areas underserved by child care providers, increase child slots and for supporting providers who would like to become licensed.
- $10.6 million through June 30, 2023 for the California Infant and Early Childhood Mental Health Consultation program which would support mental health needs of children, families, and child care providers.
- $4.8 million General Fund dollars for supporting the infrastructure, planning and design of a child care data system to enhance the family-provide experience and streamline program administration.
- $3.1 million from the Preschool Development Grant Birth through Five Renewal from 2020-2023 for the support of the Brilliant Beginnings data initiative and the single verification hub.

**Early Childhood for Children with Disabilities**

To improve early childhood services for children from birth through five years of age, including those transitioning to special education who are three-years-old or are transitioning to kindergarten at five-years of age, $849,000 General Fund dollars are provided for the California Department of Education (CDE), $65.5 million is provided to the Department of Developmental Services (DDS) in 2022-23 and $82.5 million in ongoing funds. These funds will provide six positions to support the CDE’s transition process efforts. A total of $51 million in 2022-23 and $68.1 million ongoing will be used to reduce regional center service coordinator caseload ratios to 1:40 for children up to age five. To promote inclusion in preschool of three- and four-year olds served by regional centers, $10 million General Fund dollars are provided to support preschool efforts to improve programmatic accessibility. $3.2 million General Fund dollars are provided to establish IDEA Specialists at each regional center and $1.2 million General Fund dollars are provided to increase DDS resources to provide improvements to the Early Start Program.

**Family Support**
The budget proposes statutory changes to fully pass-through assigned child support payments collected by the state to families formerly assisted by CalWORKS. The Department of Child Support Services would waive its share of recoupment, with a revenue loss of $52.3 million General Fund dollars in 2022-23, as well as $104.6 million ongoing General Fund dollars. The estimated total of pass-through funds for formerly CalWORKS assisted families is $187 million.

The Young Child Tax Credit, created in the 2019 Budget Act which provided a tax credit of $1,000 to all households that qualify for the Earned Income Tax Credit and has a child five years old or younger, is proposed to expand to address inflation, beginning in the 2022 tax year, as well as increasing to include households with zero earned income.

The budget projects a 7.1 percent increase to CalWORKs Maximum Aid Payment levels, costing approximately $200.7 million in 2022-23, which would be funding by the Child Poverty and Family Supplemental Support Subaccount of the 1991 Local Revenue Fund.

Medi-Cal premiums for about 500,000 pregnant women, children, and disabled working adults would be reduced through $53.2 million in 2022-23 and $89 million annually.

**Higher Education**

A total of $39.6 billion is provided for the University of California, the California State University (CSU), California Community Colleges (CCC’s), and the California Student Aid Commission. The Administration has worked with each system to create multi-year compacts as well as a roadmap to establish clear commitments to expand student access, equity, and affordability, as well as entering careers in health, education, climate action, and technology. The following proposals would address college affordability:

- Increase of $515 million ongoing General Fund to support a modified version of the Middle Class Scholarship Program and cover non-tuition costs;
- Increase of $300 million one-time General Fund to fully fund the $500 million total commitment to support the Learning-Aligned Employment Program administered by the California Student Aid Commission;
- Increase of $100 million ongoing Proposition 98 General Fund dollars to support the community college Student Success Completion Grant Program;
- Modification of the Cal Grant B Dreamer Service Incentive Grant program to increase participant stipends to the equivalent of a $15 hourly wage.

Community colleges are provided with a number of investments to align with their roadmap. The budget includes an additional $150 million one-time Proposition 98 General Fund dollars to support efforts and focused strategies to increase student retention rates and enrollment. To prevent fiscal declines from the full implementation of the Student Centered Funding Formula, the budget proposes a statutory change of a funding floor for districts, allowing them to transition to the core formula over time.
Major community college budget adjustments include:

- Increase of $409.4 million ongoing Proposition 98 General Fund dollars to provide a 5.33-percent COLA for apportionments and $24.9 million ongoing Proposition 98 General Fund for 0.5-percent enrollment growth;
- $200 million ongoing Proposition 98 General Fund dollars to increase the Part-Time Faculty Health Insurance Program;
- Increase of $130 million one-time Proposition 98 General Fund dollars, of which $30 million is for 2022-23, $50 million is for 2023-24, and $50 million is for 2024-25, to support healthcare-focused vocational pathways for English language learners across all levels of English proficiency, through the Adult Education Program;
- Increase of $100 million Proposition 98 General Fund dollars to address modernization of CCC technology infrastructure, including sensitive data protection efforts at the community colleges;
- Increase of $20 million one-time Proposition 98 General Fund dollars to support emergency student financial assistance grants to eligible AB 540 students;
- Increase of $100 million Proposition 98 General Fund dollars to address modernization of CCC technology infrastructure, including sensitive data protection efforts at the community colleges;
- Increase of $20 million one-time Proposition 98 General Fund dollars for a grant program that incentivizing public-private partnerships that prepare students in grades 9 to 14 for the high-skill fields of education and early education; science, technology, engineering and mathematics (STEM); and healthcare;
- Increase of $5 million one-time Proposition 98 General Fund dollars to support the CCC Teacher Credentialing Partnership Program.

Major CSU adjustments include:

- Increase of $211.1 million ongoing General Fund dollars for operating costs;
- Increase of $81 million ongoing General Fund to support California resident undergraduate student enrollment growth of 9,434 full-time equivalent students in the 2022-23 academic year;
- Increase of $12 million ongoing General Fund for increasing support to foster youth students.

**Pensions**

The budget provides $3.7 billion General Fund dollars to pay the statutorily required annual state contribution to the California State Teachers' Retirement System (CalSTRS). Due to CalSTRS’ 27.2 percent rate of return for 2020-21, the state’s share of the existing shortfall will be eliminated by 2024-25. The Teachers’ Retirement Board is not expected to increase the state contribution rate for the Defined Benefit Plan in 2022-23 above the current rate of 6.3 percent.

The budget includes $8.4 billion for the statutorily required annual state contribution to the California Public Employment Retirement System (CalPERS), which reflects the 21.3 percent investment return the system realized in 2020-21. An additional $3.5 billion in Proposition 2 funding is provided to reduce the state’s CalPERS unfunded liability, resulting in an estimated $7 billion in savings over the next three decades.