



California Association for Bilingual Education

2023-24 Governor's Budget Proposal Summary

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Governor Newsom introduced a relatively positive budget given a \$22.5 billion overall shortfall caused by declining capital gains. The \$297 billion overall budget, which is navigating inflation and market slowdown, includes total General Fund (GF) costs of \$223.6 billion and does not include a recession scenario. However, it does note that should a recession materialize in the Spring, withdrawals from reserve accounts and program cuts may be introduced.

The proposed budget includes a total of \$35.6 billion in total reserves, including \$22.4 billion in the Budget Stabilization Account (Rainy Day Fund), \$8.5 billion in the Public School System Stabilization Account (PSSSA), \$900 million in the Safety Net Reserve, and \$3.8 billion in the state's overall operating reserve (used for special economic uncertainties). The state has received its maximum constitutional amount in the Budget Stabilization Account, triggering \$951 million to be dedicated for infrastructure investments in 2023-24. Further, the proposed budget includes additional payments to state retirement liabilities required by Proposition 2, which includes \$1.9 billion in 2023-24, with approximately \$5.3 billion projected to be paid over three years.

To address the \$22.5 billion projected shortfall, the projected budget includes \$7.4 billion in funding delays across the budget between the 2021-22 through the 2023-24 fiscal years, a total of \$5.7 billion of reductions/pullbacks across the 2021-22 through 2023-24 fiscal years, fund shifts of \$4.3 billion in the 2022-23 and 2023-24 fiscal years to capital outlay projects to California State University issued debt, reverting specific bonds to cash projects from the 2022 Budget Act, and \$3.9 billion in trigger reductions in the 2020-21 through the 2023-24 fiscal years. The items included to address the shortfall are not expected to impact education funding.

The budget additionally includes close to \$15 billion in measures to create resiliency through inflationary adjustments, withdrawing bond liability and withdrawing supplemental deposits to the Budget Stabilization Account and Safety Net Reserve Deposits.

Economy

The proposed budget projects slower economic growth in 2023 due to high interest rates. As the Federal Reserve continues to ponder rate changes, market reaction could create a mild recession, thereby repressing this growth and potentially leading to GF revenue losses between \$20 and \$40 billion relative to the projected budget forecast. Should a moderate to severe recession materialize, these losses could potentially exceed \$60 billion. This situation could change due to inflation changes or an end to the conflict in Ukraine, impacting monetary policy.

Personal income taxes, which make up the bulk of GF revenues have declined by -1.7 percent, which sales and use taxes and corporation taxes have slightly increased by 2.3 and 2.1 percent. However, personal income is expected to continue to grow through 2025, but at a slower rate due to tighter monetary policy. Slower job growth is anticipated, which is expected to impact non-corporate business profits, coupled with slower business activity. Interest income, which includes property income, is projected to grow with a high in 2023 of 10.8 percent.

Overall personal income taxes are forecast to be \$25.4 billion lower over the budget window as a result of withholding and capital gains. This has resulted in an underperformance in the stock market and the S&P 500. Corporation taxes are lower by \$3.8 billion over the budget window due to updated assumptions regarding the Pass-Through Entity Elective Tax, resulting in a \$5 billion shift. Sales taxes are forecast to be \$2.5 billion lower over the budget window due to slower projected growth.

A highlighted risk to the projected budget's forecast is a potential situation of inflation reducing more slowly than anticipated, or the Federal Reserve tightening too much. While continued increases have been signaled by the Federal Reserve as it seeks to gain a foothold on inflation, the lagging impact these changes take to be absorbed into the economy pose a risk that the rates could over project. This could prove to be a disruption to a return to normalcy and could further slow growth, pushing the economy into a mild recession. The Department of Finance has created a recession scenario in late 2023 through 2024, observing slower personal income, likely including \$132 billion less over this forecast window.

Capital gains realizations have been significantly lower than projected, reducing from \$227 billion to \$198 in 2022 and from \$217 billion to \$174 billion in 2023. Capital gains revenue have a strong influence on the GF, with recent volatility making it difficult to forecast. While capital gains contributed \$2.3 billion to the GF in 2009, it is projected to reach \$30 billion in 2021, then declining to \$20.2 billion in 2022 and \$17.6 billion in 2023.

California's long-term forecast projects personal income tax, corporation taxes, and sales tax growth are expected to increase from \$215 billion in 2021-22 to \$218.1 billion in 2026-27, reflecting an average year growth of 0.4 percent. Revenues are expected to moderate with 4.1 percent in growth by 2026-27.

While California recovered from the COVID job loss, it did grow at a slower pace in 2022 than in 2021. California's overall job gains during the first ten months in 2022 have accounted for 14.5 percent of the four million jobs added nationally.

Economic growth is expected to continue through 2024, but at a slower pace. U.S. real Gross Domestic Product growth is solely anticipated to be one percent in both 2023 and 2024. Included in this slow growth is a normalization of job growth as market demand and low unemployment resume. The projected budget expects total employment to remain higher than pre-pandemic levels through to 2025.

Highlighting a peak inflation of 9.1 percent in June 2022, then easing to 7.7 percent in October, the proposed budget expects headline inflation to decline as California's labor market slows down due to the Federal Reserve's monetary policy, supply chain issues being resolved, as well as contract rent decreases. Average wage growth is expected to moderate, with wage growth projected at 3.4 percent in 2023, then moving to 3.6 percent between 2024 and 2026.

Education

Education Funding

Proposition 98 funding is decreased by \$1.5 billion to a total of \$108.8 billion for schools and community colleges with the lower funding revised lower GF revenues. The Proposition 98 Guarantee maintains its Test 1 status from 2021-22 through 2023-24, reflecting approximately 38 percent of all GF revenues, as well as local property tax revenues. While schools have been declining overall, Proposition 98 funding does not reflect this declining enrollment. As funding is "rebenched", reflecting students increases as a result of Universal Transitional

Kindergarten (UTK), the percentage of the GF is shifting from 38.3 to 38.6 percent. Beginning in 2024-25, the Proposition 98 Guarantee will again be "rebenched" to incorporate the Arts and Music in Schools-Funding Guarantee and Accountability Act, which was passed by the voters in November.

Proposition 98 funding for 2021-22 has been revised to \$110.4 billion in 2021-22, \$106.9 billion in 2022-23, and \$108.8 billion in 2023-24, cumulating in an overall three-year decrease of \$4.7 billion over the total amount funded in the 2022 Budget Act. The proposed budget includes total funding of \$128.5 billion (\$78.7 billion GF and \$49.8 billion other funds) for all UTK-12 programs, equating to \$17,519 in Proposition 98 per-pupil funding and \$23,723 in per-pupil funding including all funding sources.

The proposed budget revises the 2021-22 and 2022-23 payments into the PSSSA to \$3.7 billion and \$1.1 billion while setting a 2023-24 payment at \$365 billion, bringing the total account balance to more than \$8.5 billion at the end of 2022-23. This amount continues to trigger a ten percent cap on school district reserves in fiscal years immediately following those that reflected a PSSSA balance equal or greater than three percent of the total K-12 share of the Proposition 98 Guarantee.

A hefty Local Control Funding Formula (LCFF) cost-of-living increase (COLA) of 8.13 percent is included in the proposed budget. Combining growth adjustments, this increase will reflect in an additional \$4.2 billion in additional discretionary funds for local educational agencies (LEAs). Approximately \$613 million in one-time funding is provided for LCFF ongoing costs in 2022-23 and \$1.4 billion in one-time funding is provided for ongoing costs to the LCFF in 2023-24.

The proposed budget highlights specific student groups targeted under the LCFF and creates a new equity multiplier of \$300 million in ongoing Proposition 98 GF that will be an add-on to the LCFF. Funding will be allocated to LEAs based upon school-site eligibility through a more targeted methodology than the current supplemental grant eligibility. Funding for this multiplier will be used to augment existing resources to support the highest-needs schools across the state, while highlighting the importance of equitable allocation of resources by LEAs. The proposed budget will include a comprehensive package of trailer bill amendments to the K-12 accountability and continuous improvement system to ensure student groups or school-level equity gaps within LEAs are identified and effectively addressed through Local Control and Accountability Plans as well as the Differentiated Assistance processes.

Early Childhood Education

Funding to expand the implementation of UTK is revised downward based upon updated enrollment and attendance data in the proposed budget from \$614 million to \$604 million to expand access to all children turning five-years-old between September 2nd and February 2nd. Funding is also revised downward which was created to provide an additional certificated or classified staff person into every UTK classroom from \$383 million to \$337 million. An additional \$690 million is provided in the proposed budget to implement the second year of transitional kindergarten expansion, bringing in all children turning five-years-old between September 2nd and April 2nd, which would equate to about 46,000 children. Further, \$165 million is provided to add an additional certificated or classified staff person into classes to serve these additional students. The full implementation of UTK is expected to be complete in 2025-26.

The proposed budget includes \$64.5 million Proposition 98 GF and \$51.8 million GF to maintain the multi-year plan to increase the State Preschool Program adjustment factors for students with disabilities, dual language learners, and childhood mental health, while adding an adjustment factor for three-year-olds. Since 2023-24 will

be the second year of implementing this goal, students with disabilities will be required to make up 7.5 percent of State Preschool Program providers' enrollment. To offset reimbursement rate increases, \$152.7 million GF is provided, as well as \$63.3 million GF and \$112 million Proposition 98 GF to provide an 8.13 percent COLA.

The proposed budget delays the 2023-24 funding of \$550 million that had previously been provided to support the California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program to 2024-25.

Literacy

An additional \$250 million one-time Proposition 98 GF is provided to build upon the existing Literacy Coaches and Reading Specialists Grant Program, which funds high-poverty schools to train and hire literacy coaches and reading specialists for one-on-one and small group intervention for struggling readers. Another one million one-time GF is also provided to create a Literacy Roadmap to assist educators to navigate these resources and use them in their classrooms.

Special Education

The proposed budget offers programmatic changes to special education, including:

- Limiting the additional funding Special Education Local Plan Areas (SELPAs) may retain for non-direct student services before allocating special education base funding to their member LEAs;
- Stabilizing existing SELPA membership by extending the moratorium on the creation of a new single-district SELPA by two years from June 30, 2024 through June 30, 2026;
- Creating additional fiscal transparency by requiring the California Department of Education (CDE) to include each SELPA's annual local plan on its website, including their governance, budget and services plans.

Arts and Cultural Enrichment

The Arts and Music in School-Funding Guarantee and Accountability Act, which was passed by voters in November, requires schools to receive the equivalent of one percent of the Proposition 98 Guarantee (on top of Proposition 98 funding) to increase funding for arts and music instruction in schools. The proposed budget includes \$941 million for this funding while reducing \$1.2 billion Proposition 98 GF from the Arts, Music, and Instructional Materials Discretionary Block Grant, which was included in the 2022 Budget Act. To allow LEAs to provide high school seniors with access to cultural enrichment experiences, \$100 million one-time Proposition 98 GF is provided to facilitate museum visits, access to theatrical performances, or other participation in extracurricular art enrichment activities.

Additional significant adjustments include:

- Local Property Tax Adjustments – Decrease of \$153 million Proposition 98 GF for districts and county offices of education in 2022-23, as well as a decrease of \$1.3 billion ongoing Proposition 98 GF for 2023-24 resulting from increased offsetting of property taxes;
- Cost-of-Living Adjustments – Increase of \$669 million ongoing Proposition 98 GF reflecting an 8.13 percent COLA for categorical programs outside of the LCFF, including special education, child nutrition, state preschool, youth in foster care, Mandates Block Grant, Adults in Correctional Facilities Program,

Charter School Facility Grant Program, American Indian Education Centers, and the American Indian Early Childhood Education Program;

- School Facility Program – Decrease of \$100 million GF in 2023-24 from \$2.1 billion to \$2.0 billion;
- County Offices of Education – Increase of \$51.7 million ongoing Proposition 98 GF reflecting an 8.13 percent COLA and Americans with Disability Act changes related to the LCFF;
- Commercial Dishwasher Grants – Set-aside of \$15 million from the \$600 million one-time Proposition 98 GF appropriated in the 2022 Budget Act to support kitchen infrastructure related investments to help LEAs purchase and install commercial dishwashers;
- Student Friendly Services – Increase of \$3.9 million ongoing Proposition 98 GF for the California College Guidance Initiative;
- K-12 High Speed Network – Increase of \$3.8 million ongoing Proposition 98 GF for the K-12 High Speed Network Program;
- Reversing Opioid Overdoses – Increase of \$3.5 million ongoing Proposition GF for middle and high school sites to maintain at least two doses of naloxone hydrochloride or a similar medication to reverse an opioid overdose;
- Data Support – Increase of \$2.5 million non-Proposition 98 GF and 15 additional positions for the CDE to meet state and federal data and accountability reporting requirements, support data exchanges with other agencies, and to quickly respond to emergent data needs both internally and externally. *[This may include the goals included in CABE/Californians Together-sponsored AB 1868 (Rivas 2022)];*
- Fiscal Crisis and management Assistance Team – Increase of \$750,000 ongoing Proposition 98 GF to provide professional development to LEA Chief Budget Officers through a mentorship program by the Fiscal Crisis and Management Assistance Team.

Child Care

Significant investments include:

- COLA – Increase of \$301.7 million General Fund for Child Care and Development Programs and \$1.5 million for the Child and Adult Care Food Program reflecting an 8.13 percent COLA;
- Child Care Slot Expansion Timing – While existing slots are maintained, 20,000 new slots that would have been funded in 2023-24 will instead be funded in 2024-25.

Higher Education

University of California

Significant ongoing investments include:

- Base Growth – Increase of \$215.5 million ongoing GF for operating costs, reflecting a five percent base increase, which will also support a one percent growth in undergraduate enrollment;
- Resident Undergraduate Enrollment Growth – Increase of \$30 million ongoing GF to offset revenue reductions related to the replacement of 902 nonresident undergraduate students enrolled at three campuses;
- Graduate Medical Education Backfill – Increase in \$4 million ongoing GF to offset declines in Proposition 56 funding;
Medical School Project at UC Riverside – Increase of \$6.5 million ongoing GF.

Significant one-time investments include:

- Delayed Capital Outlay Support – Delayed support of \$366 million for three projects previously included in the 2022 Budget Act.

California State University

Significant ongoing investments and adjustments include:

- Base Growth – Increase of \$227.3 million ongoing General Fund for a five percent base increase;
- Shift in Capital Support Funding – Shifts \$404.8 million previously appropriated for the upfront support of capital projects on CSU campuses to instead be supported by CSU-issued bonds, including \$27 million GF support to cover debt service on those bonds.

California Community Colleges

Highlighting the overall enrollment drop of 16 percent since the emergence of the pandemic, as well as a national trend of declining enrollment, \$200 million one-time Proposition 98 GF is provided to assist community colleges to create strategies to increase student retention and enrollment.

The Administration shared its intent to include a mechanism in the May Revision that would provide flexibility for community college districts making progress toward the California Community College roadmap goals, which could include categorical program spending flexibility and the consolidation of reporting requirements.

The Administration additionally requests that community colleges create dual enrollment agreements with all available LEAs within their districts and that they also develop and offer a one-unit service-learning course that high school students could access, which would help high school students to volunteer in their local communities and participate in civic engagement.

Significant ongoing investments and adjustments include:

- Apportionments – Increase of \$652.6 million ongoing Proposition 98 GF for an 8.13 percent COLA to the Student Centered Funding Formula apportionment and \$28.8 million ongoing Proposition 98 GF for enrollment growth of 0.5 percent;
- Categorical Program COLA – Increase of \$92.5 million ongoing Proposition 98 GF for an 8.13 percent COLA for specified categorical programs and the Adult Education Program;
- Student Enrollment and Retention – Increase of \$200 million one-time Proposition 98 GF to support efforts and strategies to increase student retention rates and enrollment;
- Workforce Training Grants – Increase of \$14 million one-time Proposition 98 GF for the administration of workforce training grants in collaboration with the California Department of Forestry and Fire Protection;
- Chief Business Officer Mentorship Program – Increase of \$275,000 Proposition 98 GF (\$200,000 ongoing), to provide professional development to the Chief Budget Officer professional development program run by the Fiscal Crisis and Management Assistance Team;
- Deferred Maintenance – Decrease of \$213 million one-time Proposition 98 GF.

Student Housing

The proposed budget delays \$250 million in anticipated support from 2023-24 for affordable student housing projects to the 2024-25 fiscal year, while providing intent language to provide \$1.8 billion one-time GF over two years to create a student housing revolving loan program for the UC, CSU and the CCCs. Additionally includes delays to this program resulting in \$650 million being available in 2024-25 and \$1.15 billion available in 2025-26.

Migration and Border Communities

The Administration highlights California's role in providing humanitarian services for migrants released from short-term federal custody in the border region, which were expanded in 2021 due to changing federal policies. The proposed budget specifies that California cannot continue to fund these efforts at scale without significant Congressional support and states the Administration will work to secure additional federal resources and operational needs which may be included in the May Revision.

Health and Human Services

Significant adjustments include:

- California's Behavioral Health Community-Based Continuum Demonstration – Includes \$6.1 billion over five years for the Department of Health Care Services and Department of Social Services to expand behavioral health services and strengthen the continuum of mental health services for Medi-Cal beneficiaries with serious mental illness and emotional disturbance;
- Reproductive Health Services 1115 Waiver – Includes \$200 million in 2024-25 for a grant program to support access to family planning and related services, system transformation, capacity and sustainability of California's safety net;

Pensions

The proposed budget includes \$8.5 billion in statutorily required annual contributions to the California Public Employment Retirement System (CalPERS) which is \$55 million higher than the 2022 Budget Act, which is reflective of payroll growth and amortization changes, as well as 7.4 percent of investment losses in 2021-22. An additional \$1.2 billion is also proposed for a one-time Proposition 2 debt repayment for a supplemental payment to the state's unfunded liabilities.

The proposed budget additionally includes \$3.9 billion from the GF for the states statutorily required annual contribution to the California State Teachers' Retirement System, reflecting an approximate \$218 million increase from the 2022 Budget Act due to higher than anticipated credible compensation growth between 2020-21 and 2021-22.