

Summary of the Governor’s Proposals for the 2022–23 State Budget and California Community Colleges

By School Services of California Inc.

Introduction

It is not often that we experience a crisis, such as the global health pandemic, that turns our collective and individual lives upside down and inside out, while we enjoy the fruits of an exuberant economy that yields unprecedented revenues. And yet, here we are with the release of Governor Gavin Newsom’s 2022-23 State Budget—a \$286 billion spending plan that aims to tackle COVID-19 head on, builds upon and expands critical services for Californians, and strengthens the resiliency of the state to address uncertainties and crises we cannot yet see.

For education, Governor Newsom proposes a wide range of new investments. The significant funding surpluses of California’s COVID-19 economy can support an increase in programmatic offerings through existing education programs and additional investments in several education areas.

Overview of the Governor’s Budget Proposals

Governor Newsom’s Budget proposal seeks to strike a balance between ensuring that the needs of every Californian, and especially the most vulnerable Californians, are met through an array of programs while ensuring that the state is equipped to respond to shocks spawned by natural disasters or economic downturns. To this end, his 2022-23 State Budget proposes investments in California’s core infrastructure to combat the threat of wildfires that have devastated so many lives. The Budget continues and expands programs to address climate change, including workforce investments and funding to green California’s school bus fleets. The Budget recognizes the continuing impacts on COVID-19 and proposes over \$2 billion to increase the state’s capacity to slow the spread of the virus through increased testing capacity and vaccination efforts. Additionally, the struggles of small businesses persist as business owners try to recover from the instability of the last two years and the recent omicron surge. Consequently, Governor Newsom augments federal aid to buoy small businesses.

These investments, alongside obligated spending on public education, are viewed by the Governor as essential to protect California in the here and now. However, he is equally committed to fiscal prudence and laying a budget foundation against future risks. The 2022-23 State Budget plan reflects over \$34 billion in reserves: \$20.9 billion in the state’s Rainy Day Fund to address fiscal emergencies and \$3.1 billion in operating reserves. Additionally, the Budget includes a sizable deposit into the Proposition 98 reserve (totaling \$9.7 billion). Putting money into a savings account is one way to address future uncertainties; another is to reduce spending obligations. In this regard, Governor Newsom proposes to accelerate buying down the state’s retirement liabilities with \$3.8 billion in the Budget year and another \$8.4 billion over the next three years. While this is welcome news for the stability of the retirement systems of educators, they do not directly benefit education employers.

One of Governor Newsom’s Budget hallmarks is his reliance on onetime spending. We have seen this pattern since he took office, and perhaps was most stark with the 2021 Budget Act. The Governor’s 2022-23 State Budget reflects this tool to ensure stability and budget resilience over time with 86% of his spending proposals being onetime in nature. With this approach, and a deliberate and thoughtful combination of onetime and ongoing investments, Governor Newsom proposes a Budget that is structurally balanced through 2025-26.

The Economy and Revenues

The forecast upon which Governor Newsom bases his proposed State Budget assumes continued economic growth in California. He remains confident in the state’s recovery from the pandemic and in the stability of a strengthened economy. California’s labor force participation rate is expected to improve, along with job growth and reduced unemployment. Resumed tourism and travel into the state is expected to bolster growth in low-wage, high-touch sectors that have been disproportionately impacted by the COVID-19 pandemic, and wage growth (particularly in low-wage sectors) is expected to increase.

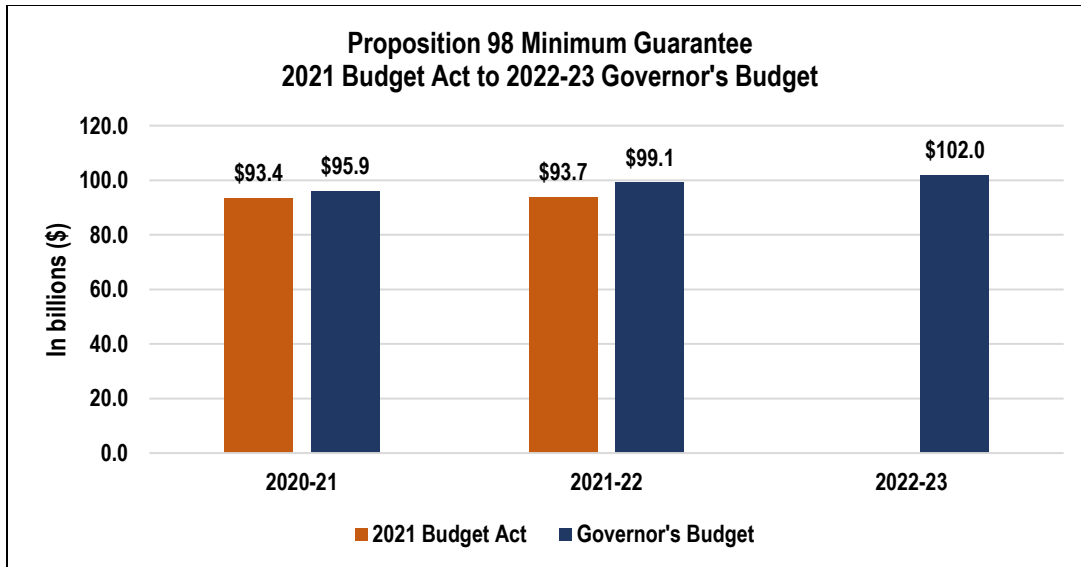
This positive forecast is reflected in the revenue assumptions from the state’s largest revenue source—the “Big Three” taxes. The 2022-23 Governor’s Budget assumes that tax revenues from two of the three main taxes (the personal income and sales and use tax) will increase from 2021-22.

Big Three Taxes (in billions)		
	2021-22	2022-23
Personal Income Tax	\$120.9	\$130.3
Sales and Use Tax	\$30.9	\$32.2
Corporation Tax	\$32.9	\$23.7

Robust state revenues provide the state a general fund surplus of \$45.7 billion surplus for the 2022-23 fiscal year, of which over \$16 billion must be spent on public education through adjustments and increases in the Proposition 98 minimum guarantee. The Legislative Analyst’s Office predicted in its November 2021 *Fiscal Outlook* that the state would have revenues in excess of its constitutional spending limit (or “Gann Limit”). The Governor holds off on addressing this issue in his January proposal; preferring to wait until the May Revision with clearer revenue estimates before addressing any spending limitations.

Proposition 98 Minimum Guarantee and Reserve

The Proposition 98 minimum guarantee for 2022-23 is expected to increase by \$8.3 billion over the 2021 Budget Act to \$102 billion. In addition, the minimum guarantee for 2020-21 and 2021-22 increases over budget act estimates by \$2.5 billion and \$5.4 billion, respectively.



Test 1 remains operative through the budget window and with an adjustment to the minimum guarantee to account for the additional four-year-olds anticipated to be served by Transitional Kindergarten (\$639.2 million), Proposition 98 spending would represent 38.4% of General Fund revenues in 2022-23.

Given the robust state revenues, Proposition 2 requires the state to make deposits into the Proposition 98 reserve when certain conditions are met. The 2022-23 Governor’s Budget includes a \$3.1 billion deposit, which accompanies adjusted deposits of \$3.1 billion and \$3.6 billion in 2020-21 and 2021-22, respectively, bringing the total deposit amount to \$9.7 billion by the end of the budget year.

Student Centered Funding Formula and Enrollment

The Governor’s Budget proposes \$409.4 million to fund the 5.33% cost-of-living adjustment (COLA) for apportionments, which is applied to the rates within the Student Centered Funding Formula (SCFF).

The Governor acknowledges that the SCFF hold harmless provision is set to expire after the 2024-25 fiscal year. To prevent fiscal declines between 2024-25 and 2025-26, Governor Newsom proposes creating a funding floor for community college districts that allows transition to the core formula over time. This language would effectively allow funding rates to continue to increase by the statutory COLA but removes its application to the hold harmless provision commencing with 2025-26 and permanently extends the revised hold harmless provision.

The Newsom Administration also states that it supports the recommendation made by the SCFF Oversight Committee to integrate an unduplicated first-generation student metric within the SCFF’s supplemental allocation once a reliable and stable data source is available. There is no timetable available as to when this metric will be included within the supplemental allocation.

The Governor proposes to provide \$24.9 million to fund student enrollment growth of 0.5%. The estimate for local property tax collections has increased by \$230.5 million, which reduces state aid accordingly in 2022-23.

CCC Roadmap to California's Future

The Administration and the Chancellor's Office have developed a collaborative multiyear roadmap that focuses on equity and student success to enhance the system's ability to prepare students for the future. To assist in the goals outlined in the roadmap, the Governor proposes the following invests in his 2022-23 State Budget blueprint:

- \$100 million ongoing for students newly eligible for the Student Success Completion Grant due to expanded Cal Grant B and Cal Grant C eligibility for California Community College (CCC) students
- \$105 million one-time to support the systemwide implementation of a common course numbering system pursuant to the provisions of Assembly Bill (AB) 1111 (Berman, Statutes of 2021)
- \$65 million onetime for community colleges to implement the transfer reform provisions required by AB 928 (Berman, Statutes of 2021)
- \$25 million onetime to assist community colleges with the procurement and implementation of software that maps intersegmental curricular pathways
- \$10 million ongoing to support the sustainable implementation of Equal Employment Opportunity Program best practices to diversify CCC faculty, staff, and administrators
- \$10 million ongoing to augment resources provided to CCC financial aid offices
- \$10 million ongoing to expand availability of foster youth support services offered by the NextUp program from 20 districts to 30 districts

Student Enrollment and Retention

To mitigate the enrollment declines exacerbated by the COVID-19 pandemic, Governor Newsom proposes \$150 million onetime to continue to support community college efforts and focused strategies to increase student retention rates and enrollment.

The Governor's Budget Summary also states that it is the expectation of the Administration that community college districts aim to offer at least 50% of their lecture and laboratory course sections as in-person instruction for the 2022-23 academic year, provided the approach is consistent with student learning modality demand and public health guidelines in place at the time. It is unclear at this point whether this expectation will be formalized in trailer bill language.

CCC Facilities and Deferred Maintenance

Governor Newsom proposes \$373 million onetime in general obligation bond funding for the construction phase of 17 projects anticipated to complete design by spring 2023, and the working drawings phase of one project. This allocation represents the next installment of the \$2 billion available to CCCs under Proposition 51.

The Administration also proposes an increase of \$387.6 million one-time to support deferred maintenance and energy efficiency projects at community colleges, of which \$108.7 million is from 2022-23, \$182.1 million is from 2021-22, and \$96.8 million is from 2020-21.

Other CCC Apportionments and Programs

The other community college programs that are funded outside of the SCFF that would also receive a 5.33% COLA under the Governor's State Budget proposal are: Adult Education, Extended Opportunity Programs and Services (EOPS), Disabled Students Programs and Services, Apprenticeship, CalWORKs Student Services, Mandates Block Grant and Reimbursements, and the Childcare Tax Bailout.

Additionally, the Governor proposes the following investments into other CCC programs:

- \$200 million ongoing to augment the Part-Time Faculty Health Insurance Program to expand healthcare coverage provided to part-time faculty by community college districts
- \$130 million onetime (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 through the Adult Education Program
- \$100 million (of which \$75 million is one-time and \$25 million is ongoing) to address modernization of CCC technology infrastructure, including sensitive data protection efforts at the community colleges
- \$20 million onetime to support emergency student financial assistance grants to eligible AB 540 students
- \$20 million onetime for a grant program that incentivizes public-private partnerships that prepare students in grades 9-14 for the high-skill fields of education and early education; science, technology, engineering and mathematics (STEM); and healthcare
- \$5 million onetime to support the CCC Teacher Credentialing Partnership Program

COVID-19 Pandemic

Governor Newsom proposes \$2.7 billion to continue the state's fight against the COVID-19 pandemic. His proposals focus on continued economic growth, keeping schools open, and supporting medical surge efforts. The proposal calls for the Legislature to take early action to allocate \$1.4 billion of the \$2.7 billion to increase vaccination rates and expand testing through

June 30, 2022, and \$1.3 billion through June 30, 2023, to support continued distribution and administration of vaccines and boosters, statewide testing, and support of hospitals to address medical surges.

The Governor also calls for early action to ensure the safety of our state's workforce by modifying the previous COVID-19 Supplemental Paid Sick Leave (SPSL) provided for under Senate Bill 95 (Chapter 13/2021), which expired on September 30, 2021. Recall that SPSL provided employees with up to 80 hours of COVID-19-related paid sick leave for themselves or a family member subject to quarantine or isolation, to attend a vaccine appointment, or if they were unable to work or telework due to vaccine-related symptoms. Beyond the call to action, the Governor's Budget Summary provides no additional information related to paid COVID-19 leave nor did the Governor say more about this proposal during his press conference.

Retirement Systems

Governor Newsom does not propose additional funding for the California State Teachers' Retirement System (CalSTRS) or the California Public Employees' Retirement System (CalPERS) employer contribution rate relief. Based on current assumptions, CalSTRS employer contributions would increase from 16.92% to 19.10% in 2022-23, while CalPERS employer contributes rates would increase from 22.91% to 26.10%.

The Rest of Higher Education

The Administration has worked with each higher education segment (CCC, California State University [CSU], and University of California [UC]) to develop multiyear compacts and a roadmap that provides sustained state investments in exchange for clear commitments from each segment to expand student access, equity, and affordability, and to create pathways for students to study and enter careers in health, education, climate action, and technology. While each segment has their own compact/roadmap with the state, they are forged with the understanding that they work toward aligned goals and achieve an increased level of intersegmental collaboration.

Building on the 2021 State Budget Act's expansion of Cal Grant financial aid entitlement, the Governor's 2022-23 State Budget proposal expands these investments in college affordability with the following:

- An increase of \$515 million ongoing, for a total of \$632 million ongoing, to support a modified version of the Middle-Class Scholarship Program and help cover non-tuition costs for more families
- An increase of \$300 million one-time to fulfill the \$500 million total commitment to support the Learning-Aligned Employment Program administered by the California Student Aid Commission
- Modification of the Cal Grant B Dreamer Service Incentive Grant program to increase participant stipends from the equivalent of a \$10-hourly wage to the equivalent of a \$15-hourly wage, and to authorize any unexpended funds to be provided to UC and CSU to support their California Dream Loan programs

The Budget includes \$304.1 million ongoing for the CSU, including \$211.1 million ongoing for a 5% increase in base resources. Similarly, the Budget proposes \$307.3 million in ongoing General Fund augmentations for the UC, including \$200.5 million ongoing for a 5% increase in base resources. The Governor also proposes \$100 million for both the CSU and UC for deferred maintenance and energy efficiency projects.

K-12 Education Proposals

The Governor proposes providing \$3.3 billion ongoing for the K-12 Local Control Funding Formula (LCFF), which reflects the 5.33% statutory COLA.

The Governor is also proposing a number of investments outside of the LCFF such as \$54.4 million in educator workforce investments, an additional \$3.4 billion for the Expanded Learning Opportunities Program, \$1.5 billion for school transportation programs, \$1.5 billion to support the development of career pathway programs, and \$500 million to expand and strengthen access to dual enrollment opportunities.

The Governor's Budget proposes an unprecedented onetime non-Proposition 98 General Fund investment totaling \$2.225 billion to fund new K-12 construction and modernization projects through the School Facility Program.

In Closing

Educators are working diligently to meet the learning and nonacademic needs of their students and their families. We at School Services of California Inc. continue to be in awe of that monumental task. In 2022-23, we hope that the Governor and Legislature will provide the resources needed to best support educators throughout California. The Governor's Budget proposal is a starting point in that conversation, which will last the next several months.