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## FISCAL REPORT

*PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS*

### An Overview of the 2022–23 Governor’s Budget Proposals



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#### Preface

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 to reshape Transitional Kindergarten (TK) through Grade 12 education. 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 including the Local Control Funding Formula (LCFF), the Expanded Learning Opportunities Program, and special education.

#### 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 school 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.

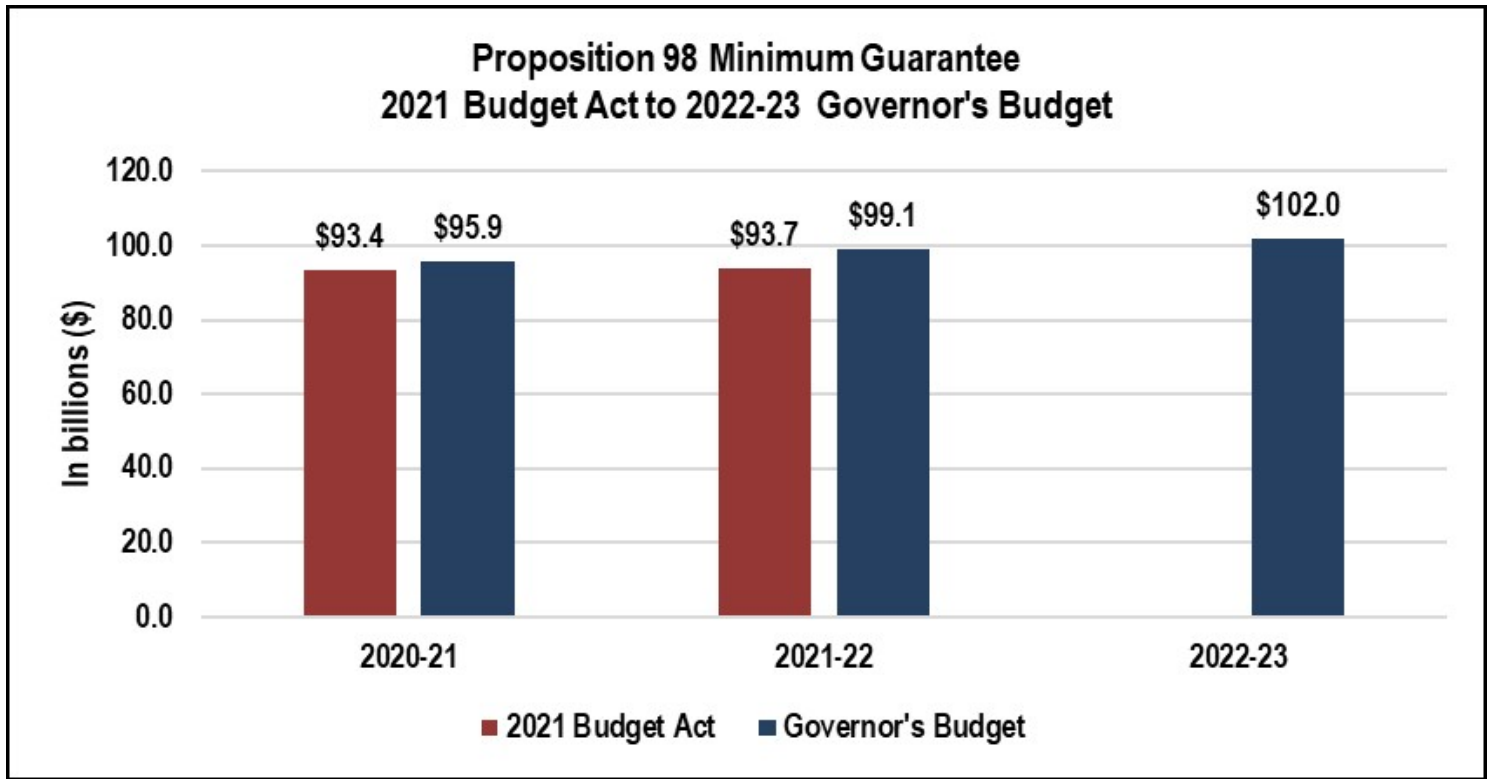
<b>Big Three Taxes (in billions)</b>		
	<b>2021–22</b>	<b>2022–23</b>
Personal Income Tax	\$120.9	\$130.3
Sales and Use Tax	\$30.9	\$32.2
Corporation Tax	\$32.90	\$23.7

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, Reserve, and Local Reserve Cap

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 TK (\$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.

Related to education’s Rainy Day Fund is the requirement to cap most local school district reserves at 10% when the fund’s balance is at least 3% of the K-12 portion of the minimum guarantee. The previous balance of \$6.4 billion in the 2021 Budget Act triggers this cap beginning in 2022-23, and the additional deposit means that the cap will remain in place for some time.

## LCFF, COLA, and ADA

In light of the significant fiscal challenges facing local educational agencies (LEAs) as well as the anticipated continued decline in enrollment, the Governor’s Budget is proposing an amendment to how school districts are funded under the LCFF. Building upon the current law which funds LCFF for school districts on the greater of prior- or current-year average daily attendance (ADA), a third option would be added looking at the average of three prior years’ ADA.

The Budget proposal notes that the Administration intends to engage interested parties to explore options for providing declining enrollment protections for charter schools. No mention is made in the Budget Summary of similar protections for county offices of education (COEs).

The Governor’s Budget proposal includes an estimated statutory cost-of-living adjustment (COLA) of 5.33% for the LCFF—an increase from the projections of 2.48% that was part of the 2021 Enacted State Budget. The other education programs that are funded outside of the LCFF—Special Education, Child Nutrition, Foster Youth, Mandate Block Grant, Adults in Correctional Facilities Program, American Indian Education Centers, and the American Indian Early Childhood Education program—as well as COEs and community colleges, will also receive the estimated 5.33% COLA.

### LCFF Entitlements for School Districts and Charter Schools

The base grants by grade span for 2022-23 are increased over 2021-22 by the estimated statutory COLA of 5.33%.

Grade Span	2021-22 Base Grant Per ADA	5.33% COLA	2022-23 Base Grant Per ADA
TK-3	\$8,093	\$431	\$8,524
4-6	\$8,215	\$438	\$8,653
7-8	\$8,458	\$451	\$8,909
9-12	\$9,802	\$522	\$10,324

The TK-3 base grant increase for the class-size reduction (CSR) grade span adjustment is \$886 per ADA in 2022-23, and the grade 9-12 base grant per ADA is increased by \$268 in recognition of the need for Career

Technical Education (CTE) courses provided to students in the secondary grades.

School districts and charter schools are entitled to supplemental grant increases equal to 20% of the adjusted base grant (including CSR and CTE funding) for the percentage of enrolled students who are English learners, eligible for the free or reduced-price meals program, or in foster care. An additional 65% per-pupil increase is provided as a concentration grant for each percentage of eligible students enrolled beyond 55% of total enrollment, with 15% of the concentration grant to be used to increase the number of adults providing direct services (nurses, teachers, counselors, paraprofessionals, and others) to students.

## Independent Study

The primary source of general-purpose funding for most LEAs is based on ADA. ADA can either be generated through in-person instruction or through independent study. As such, independent study programs are the means by which LEAs deliver remote instruction and generate ADA. Independent study is offered through two distinct independent study programs, commonly referred to as traditional independent study and course-based independent study.

In response to the increased number of students participating in remote instruction due to the pandemic, multiple programmatic changes were made to independent study requirements in 2021-22. The proposed Governor’s Budget for 2022-23 continues to recognize the need for independent study as an alternative to in-person instruction by continuing extended timelines for signed independent study agreements implemented in the current year. Additionally, the budget proposes allowing for time spent in synchronous instruction to be included in traditional independent study instructional time calculations beginning in 2022-23. The ability to include synchronous instruction in instructional time calculations used to substantiate ADA, which had solely relied on student work product, represents the first change to the ADA calculation for traditional independent study in decades. This change would provide increased flexibility to LEAs in meeting independent study requirements and generating attendance for the purpose of apportionment through remote instruction.

## Special Education

In the wake of \$3.1 billion in special education investments over the last three years, Governor Newsom reinforces his commitment to young children and students with disabilities by proposing an integrated package of investments in early prevention and intervention, proposes commitments for ongoing special education funding of \$500 million in Proposition 98 General Fund dollars, and a 5.33% COLA adjustment as part of the categorical programs that reside outside of the LCFF.

The 2019-20 State Budget called for policy changes underscoring the state’s commitment to improving special education instruction and services, and the Governor proposes these policy adjustments as part of the \$500 million special education funding proposal:

- Special education funding formula amendments to calculate special education 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 current funding formula. Currently, there are two \$3 million cost pools, including one targeted for necessary small SELPAs. Pending further information, a simple consolidation would create one \$6 million pool.
- Directly allocate Educationally Related Mental Health Services funding to local educational agencies. Use of these funds was made flexible in 2020–21, with allowable use expanding to any behavioral or mental health service.

Additionally, the Governor’s Budget proposes \$500 million onetime support for the Inclusive Early Education Expansion Program to support general education and special education students in inclusive preschool classrooms and facilities. Although not specifically special education funding, the Governor included hefty investments in the State Preschool Program with the goal of serving at least 10% students with disabilities and providing children with an IEP categorical eligibility to participate in State Preschool. Finally, funding to improve early childhood services for children from birth through age five to increase participation of service coordinators in IEP meetings, to establish IDEA specialists at each regional center, and for positions to support the California Department of Education’s transition process efforts are also proposed.

## **Universal TK**

Absent any change in law, LEAs are poised to enter the initial year of expansion towards universal TK. Beginning in 2022–23, students whose fifth birthday occurs between September 2 and February 2 are eligible for TK. The Governor’s Budget proposal continues the implementation of universal TK, while doing two things:

- Rebenching the Proposition 98 guarantee to include the continued implementation of universal TK
- Allocating \$383 million to reduce student-to-adult ratios, beginning in 2022–23, to 12 students to every one adult

## **Early Childhood Education**

Governor Newsom continues to implement the state’s Master Plan for Early Learning and Care, which was released on December 1, 2020. Specifically, his 2022–23 State Budget proposal provides approximately \$824 million for additional childcare slots, as well as \$373 million to support a full year of rate increases for childcare providers. Another significant proposal is \$25 million to address areas of underserved health care providers by increasing child care slots and providing increased access to a licensed, comprehensive, quality, and affordable child care and development system.

Additionally, Governor Newsom follows through on his commitments to adjust Proposition 98 to accommodate the cost of expanding TK, beginning in 2022–23, and paying for the costs of lower classroom ratios.

In addition to TK, Governor Newsom proposes specific investments to support certain children served by the California State Preschool Program (CSPP). He proposes \$309 million to provide more of an inclusive instruction for students with disabilities and support for English learners.

Governor Newsom also proposes several programmatic changes for the CSPP, including establishing categorical eligibility for age-eligible children with individualized education plans, 24 months of continuous eligibility, and the ability of providers to enroll 2-year-olds in their programs.

### **Early Literacy**

The Governor’s Budget includes new investments focused on early literacy. A onetime investment of \$500 million is proposed for grants over five years for high-needs schools to train and hire literacy coaches and reading specialists. LEAs also will be able to apply for a onetime \$200 million grant program to create or expand multi-lingual school or classroom libraries offering culturally relevant texts to support reading instruction.

### **Expanded Learning Opportunities**

As foreshadowed in the 2021 Budget Act, the Governor’s Budget increases the ongoing investment in the Expanded Learning Opportunities (ELO) Program to \$4.4 billion. Recall that funding for the ELO Program in 2021–22 was comprised of \$1 billion in ongoing and \$754 million in onetime Proposition 98 funds. The additional \$3.4 billion for the program will increase per-pupil funding and expand the number of LEAs that offer no-cost services. In addition, the Budget proposes a onetime investment of \$937 million for ELO Program infrastructure, though there will be a focus on integrating arts and music programming into the enrichment options for students. The proposed budget trailer bill also will include language to clarify that ELO Program funds may be used to hire literacy tutors as another option for enrichment activities. Finally, the Budget invests \$148.7 million ongoing to continue the onetime reimbursement rate increases that were included in the 2021 Budget Act for the After School Education and Safety and 21st Century Community Learning Centers programs.

### **College and Career Pathways**

The Governor’s Budget proposes a onetime investment of \$1.5 billion to support the development of college and career pathways focused on education, health care, technology, and climate-related fields. These funds will focus on creating local partnerships that bring together school systems, higher education institutions, and employers to develop integrated pathways to college and careers in these high-demand fields. Additionally, the Governor proposes \$500 million onetime (available over four years) to strengthen and expand student access and participation in dual enrollment programs. This investment will be complemented by \$45 million in higher education funding for curricular pathways software and public-private partnerships for STEM, education, and health care career preparation.

## Facilities

The Governor’s Budget proposes an unprecedented onetime non-Proposition 98 General Fund investment totaling \$2.225 billion to fund new construction and modernization projects through the School Facility Program. Importantly, the Office of Public School Construction has received applications for such projects, which if approved by the State Allocation Board, would consume the funding. Additionally, the Budget also allocates the remaining \$1.4 billion in Proposition 51 bond funds. Thus, the Governor’s proposal would help alleviate the backlog of local school construction projects that hope to receive state matching funds.

Additionally, the Budget appropriates \$30 million in ongoing Proposition 98 funding for the Charter School Facility Grant program, which can be used for a number of general construction costs, including making modifications to curtail the spread of COVID-19.

## Universal Meals Program/Nutrition

Beginning with the 2022–23 schoolyear, all LEAs are required to provide two free meals per day (breakfast and lunch) to any student who requests a meal, regardless of their free or reduced-price meal status. Additionally, all schools eligible for the Community Eligibility Provision will be required to apply for the program by June 30, 2022, (if they are not already participating) in order to maximize federal reimbursement for meals served. The state will then cover any remaining unreimbursed costs up to the combined state and federal free per-meal rate.

To help with the implementation of the Universal Meals Program, Governor Newsom is proposing \$596 million, on top of \$54 million provided in the 2021 State Budget Act, to fund universal access to subsidized school meals. Essentially, this is what the Administration is projecting the program to cost the state after accounting for federal reimbursement.

The Administration is also proposing \$450 million onetime (available over three years) for LEAs to upgrade school kitchen infrastructure and equipment to incorporate more fresh, minimally processed California-grown foods in school meals.

The Governor is also proposing an additional \$30 million onetime (non-Proposition 98) for the Farm to School Program to establish additional farm to school demonstration projects and \$3 million ongoing (non-Proposition 98) to expand the regional California Farm to School Network by adding 16 new positions at the California Department of Food and Agriculture.

Finally, the Governor’s Budget proposal includes \$3 million onetime to support the School Breakfast and Summer Meal Start-Up and Expansion Grant Program. Both of these programs are complementary to the provision of universal school meals and the Farm to School Program investments.

## Transportation



As part of his robust environmental goals for the state, Governor Newsom is proposing \$1.5 billion onetime (available over three years) to support school transportation programs, with an emphasis on making school bus fleets greener. This investment would provide grants (of at least \$500,000) to LEAs for the acquisition of electric school buses, construction of bus charging stations, and support other local school bus transportation needs. The investment would prioritize LEAs with a high concentration of unduplicated pupils as well as small and rural LEAs.

## **Educator Workforce**

The Governor’s Budget proposal includes \$54.4 million in onetime Proposition 98 and General Funds to deliver relief to the pervasive staffing shortages in the educator workforce. The investments build upon what was provided in the 2021 State Budget and include \$36 million to waive certain teacher examination and credential fees and \$10 million for competitive grant programs for development of teacher preparation programs. An additional \$7.5 million is committed to supporting educator career pathways by establishing prospective candidate career counseling and providing hiring and recruitment resources.

## **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 for LEAs. 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%.

## **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.

We look forward to diving deep into the Governor’s education budget with all of you and helping our local educational leaders and partners operationalize all of what this means for public agencies, staff, students, and local communities.