



Governor's Proposals for the 2023-24 State Budget and K-12 Education

Board Presentation

Themes for the 2023-24 Governor's Budget

- California seems to have turned the page in State Budget development: from COVID-19 pandemic budgeting since May 2020 to more business as usual
 - Unfortunately, business as usual comes with a softening economy
 - Fortunately, California is better prepared to weather the proverbial storm due to investments made and reserves built up during the good years
- The Governor's Budget is focused on maintaining programs where possible while trimming others
 - As the COVID-19 crisis recedes, other crises receive more attention—homelessness, housing, and extreme weather
 - All of which affect our students and educators
- As bare bones as it is, the Governor's Budget is precariously balanced and a change in the economic forecast could require more difficult decisions at the May Revision

State Budget and Economy

- Persistent inflation, rising interest rates, lingering supply chain issues and the struggling stock market continue to stifle growth both nationally and for the state of California
- Most economists believe that a mild recession will occur in 2023 or 2024
- The state's revenue outlook is substantially different than the prior two years
- The Governor's Budget forecasts General Fund revenues that are \$29.5 billion lower than at the 2022-23 Enacted Budget
 - An estimated gap of \$22.5 billion in the state's General Fund for the 2023-24 fiscal year
- Through funding delays, reduction and pullbacks, fund shifts, trigger reductions and borrowing, Governor Gavin Newsom was able to keep the state's significant reserves intact
- The Governor's revenue forecast assumes slower economic growth, but not a recession, which comes with elevated risks



Proposition 98 and the Education Budget

- **Proposition 98 resources grow leaner in the Governor's Budget, as do the proposed investments for K-12 schools and community colleges**
 - **Maintaining the purchasing power of the Local Control Funding Formula (LCFF) takes center stage with the cost-of-living adjustment (COLA)**
 - **Governor Newsom remains committed to key priorities in transitional kindergarten (TK) and expanded learning**
 - **The budget furthers educational equity to address persistent learning and achievement gaps**
 - **Governor Newsom surprises K-12 with a “sweep” of funding for arts and music instruction**

Proposed State Budget and LEA Impacts

- For education, Governor Newsom proposes a State Budget to preserve investments made during the boom years
 - The number of major changes for 2023-24 can be counted on one hand
 - However, the changes proposed are significant for local educational agencies (LEAs) across the state and include a proposed mid-year cut to previously budgeted one-time funds
- At least for now, gone are the litany of new ongoing and one-time categorical programs that have filled the Proposition 98 minimum guarantee during the economic expansion years

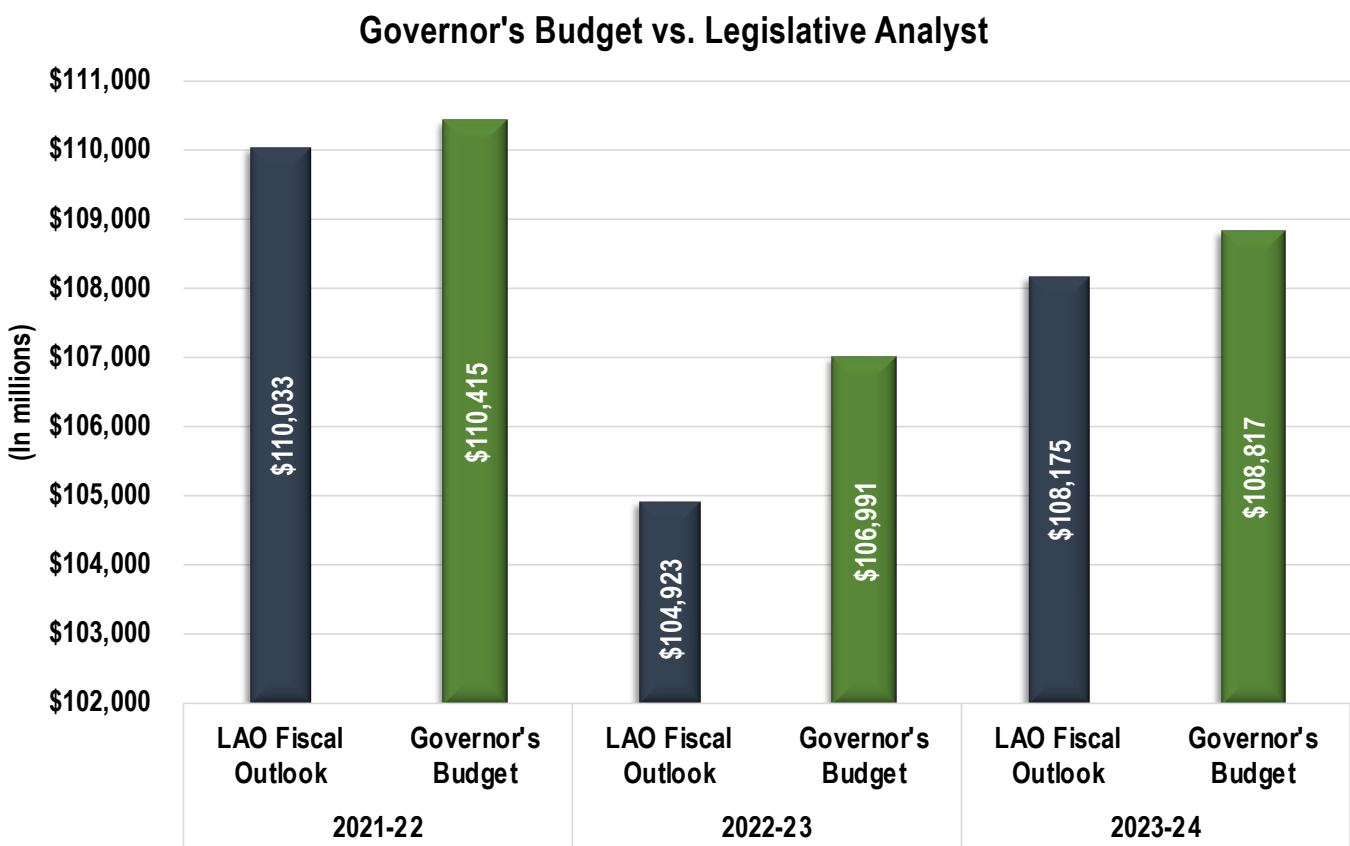


General Fund Budget Summary

2023-24 Governor's Budget in millions		
	2022-23	2023-24
Prior-Year Balance	\$52,713	\$21,521
Revenues and Transfers	\$208,884	\$210,174
Total Resources Available	\$261,597	\$231,695
Non-Proposition 98 Expenditures	\$160,973	\$143,060
Proposition 98 Expenditures	\$79,103	\$80,554
Total Expenditures	\$240,076	\$223,614
Fund Balance	\$21,521	\$8,081
Reserve for Liquidation of Encumbrances	\$4,276	\$4,276
Special Fund for Economic Uncertainties	\$17,245	\$3,805
Public School System Stabilization Account	\$8,108	\$8,473
Safety Net Reserve	\$900	\$900
Budget Stabilization Account/Rainy Day Fund	\$21,487	\$22,398

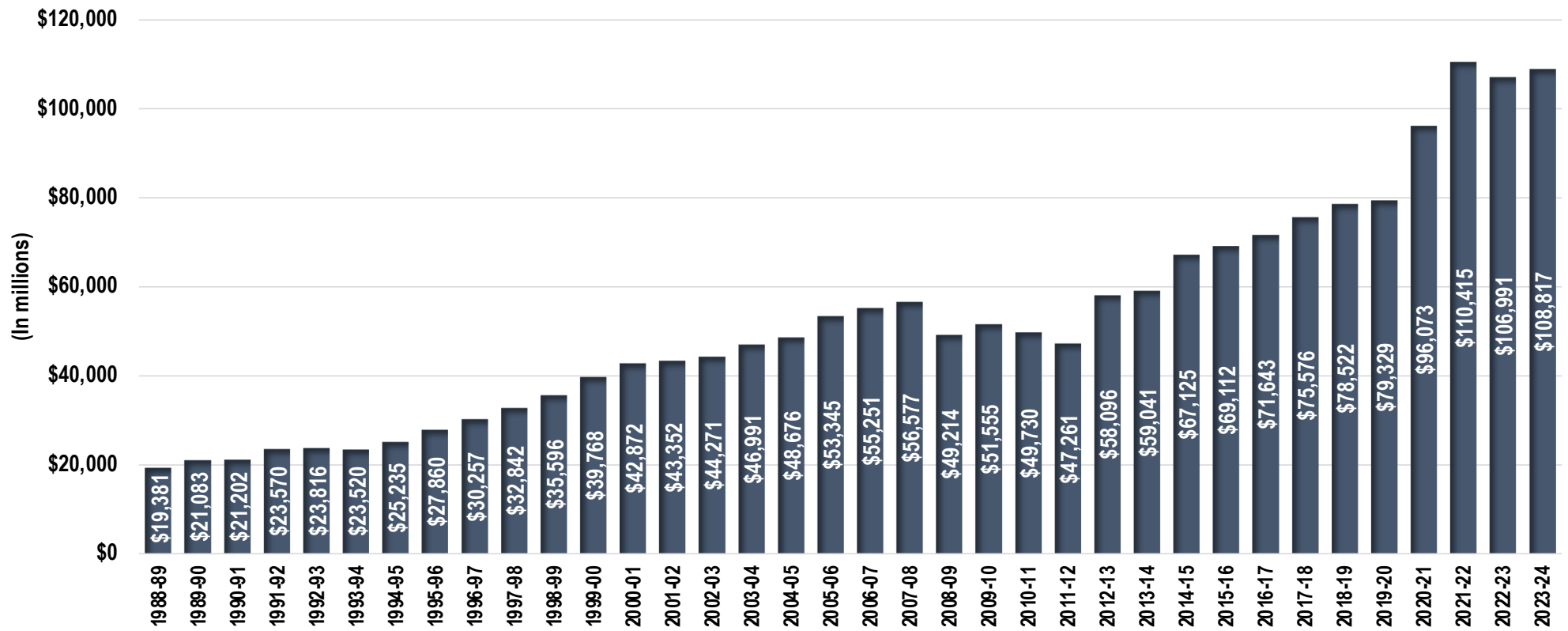
Source: Governor's Budget Summary, page 10

Proposition 98 Minimum Guarantee



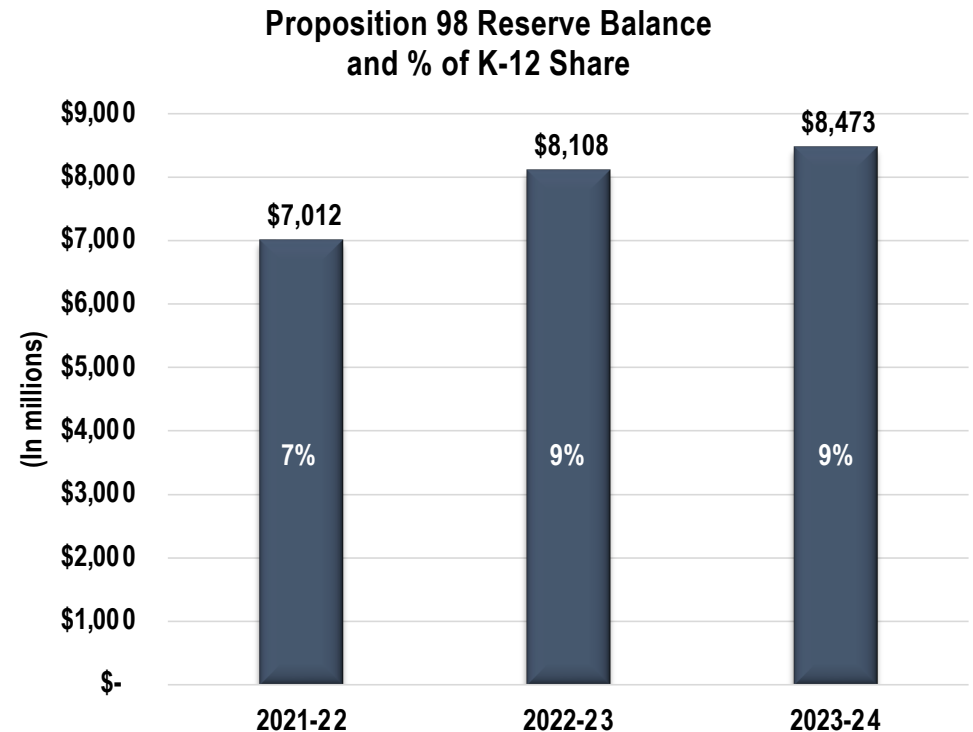
- Over the budget period, the Governor's Budget estimates are more optimistic when compared to the Legislative Analyst's Office's (LAO) *November Outlook* by over \$3 billion
 - 2021-22—\$382 million
 - 2022-23—\$2.1 billion
 - 2023-24—\$642 million
- Funding in 2023-24 is estimated to be \$108.8 billion

Proposition 98 Minimum Guarantee



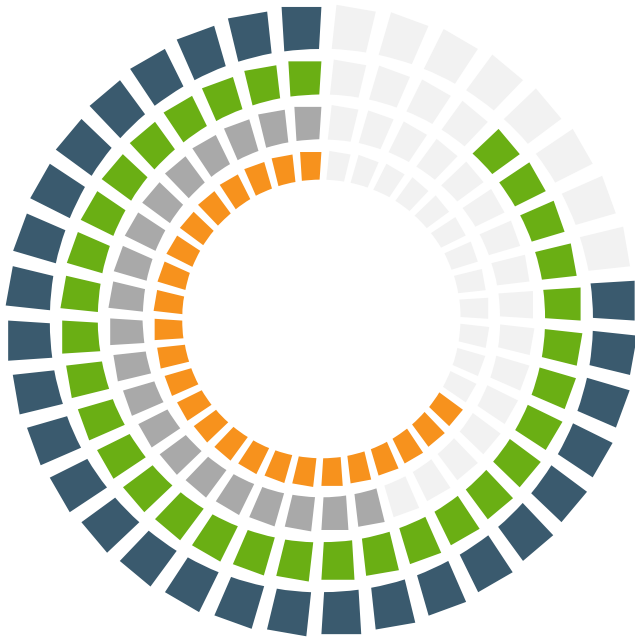
Local Reserve Cap

- Education Code limits local school district reserves¹ to 10% when certain conditions are met
 - The Proposition 98 reserve balance is greater than 3% of K-12's portion of the minimum guarantee
 - Applies only to non-basic aid school districts with average daily attendance (ADA) greater than 2,500
- The account balance continues to exceed the 3% trigger
- Cap remains operative in 2023-24



¹The reserve cap is based on assigned and unassigned ending fund balances of the General Fund and Special Reserve for Other than Capital Outlay Fund

2023-24 LCFF Overview



8.13%

Statutory COLA

\$4.7 billion

New

Equity Multiplier

In conjunction with accountability improvements, intended to augment resources to support highest-needs schools

\$5.04

Billion

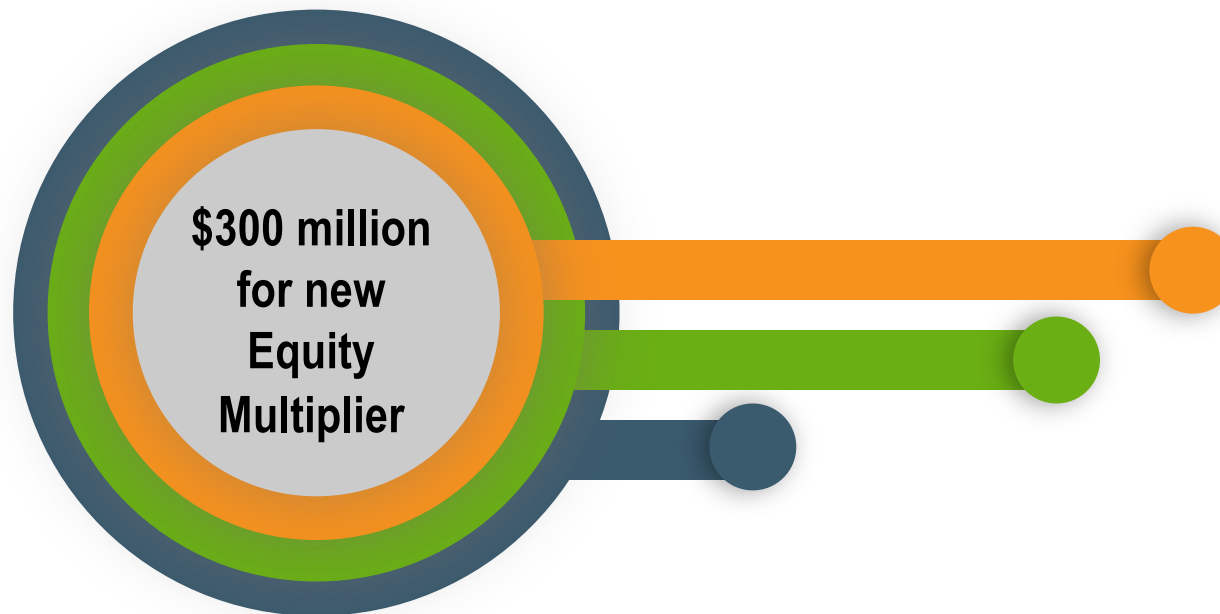
Total 2023-24 LCFF funding increase, utilizing \$1.4 billion in one-time funding

\$\$

Categorical Programs

COLA also applied to other educational programs funded outside of the LCFF

LCFF Equity Multiplier



LCFF Add-On

\$300 million new, ongoing Proposition 98 funds to establish an Equity Multiplier add-on to the LCFF

Close Equity Gaps

Intended to provide resources to accelerate learning gains and close opportunity and outcome gaps

Prior Commitment

Governor committed last year to provide ongoing funding to address the needs of students in the lowest performing student groups

2023-24 LCFF Funding Factors

Grade Span	TK	K-3	4-6	7-8	9-12
2022-23 Base Grant per ADA	\$9,166	\$9,166	\$9,304	\$9,580	\$11,102
8.13% COLA	\$745	\$745	\$756	\$779	\$903
2023-24 Base Grant per ADA	\$9,911	\$9,911	\$10,060	\$10,359	\$12,005
Grade Span Adjustment	\$1,031	\$1,031	—	—	\$312
TK add-on (inclusive of COLA)	\$3,042	—	—	—	—
2023-24 Adjusted Base Grant per ADA	\$13,984	\$10,942	\$10,060	\$10,359	\$12,317
20% Supplemental Grant per ADA ¹	—	\$2,188	\$2,012	\$2,072	\$2,463
65% Concentration Grant per ADA ²	—	\$7,112	\$6,539	\$6,733	\$8,006

¹Maximum amount per ADA—to arrive at LEA's grant amount, multiply adjusted base grant per ADA by 20% and Unduplicated Pupil Percentage (UPP)

²Maximum amount per ADA—to arrive at LEA's grant amount, multiply adjusted base grant per ADA by 65% and UPP above 55%

SSC Financial Projection Dartboard

Planning Factors						
		2022-23	2023-24	2024-25	2025-26	2026-27
DOF ¹ Planning COLA		6.56%	8.13%	3.54%	3.31%	3.23%
California CPI ²		6.00%	3.44%	2.77%	2.49%	2.74%
Unemployment Insurance		0.50%	0.20%	0.20%	0.20%	0.20%
California Lottery	Unrestricted per ADA	\$170	\$170	\$170	\$170	\$170
	Restricted per ADA	\$67	\$67	\$67	\$67	\$67
Mandate Block Grant (District)	Grades K-8 per ADA	\$34.94	\$37.78	\$39.12	\$40.41	\$41.72
	Grades 9-12 per ADA	\$67.31	\$72.78	\$75.36	\$77.85	\$80.36
Mandate Block Grant (Charter)	Grades K-8 per ADA	\$18.34	\$19.83	\$20.53	\$21.21	\$21.90
	Grades 9-12 per ADA	\$50.98	\$55.12	\$57.07	\$58.96	\$60.86

¹Department of Finance (DOF)

²Consumer Price Index (CPI)

CalSTRS Employer Contribution Rates

- Similar to the California Public Employees' Retirement System (CalPERS), the Governor does not include any new funding towards California State Teachers' Retirement System (CalSTRS) relief for LEAs
- SSC recommends that LEAs anticipate a CalSTRS employer contribution rate of 19.10% in 2023-24 based on the best information available to date from CalSTRS
 - Thereafter, CalSTRS projects an employer contribution rate of 19.10% for the next several years

Effective Date	CalSTRS Funding Plan Increases	
	Rate	Year-over-year change
July 1, 2013	8.25%	No increase since 1986
July 1, 2014	8.88%	0.63%
July 1, 2015	10.73%	1.85%
July 1, 2016	12.58%	1.85%
July 1, 2017	14.43%	1.85%
July 1, 2018	16.28%	1.85%
July 1, 2019	17.10%	0.82%
July 1, 2020	16.15%	-0.95%
July 1, 2021	16.92%	0.77%
July 1, 2022	19.10%	2.18%
July 1, 2023	19.10%	0%
July 1, 2024	19.10%	0%
July 1, 2025	19.10%	0%

CalPERS Employer Contribution Rates

- Governor Newsom did not propose providing CalPERS relief for LEAs
- Based on the latest information from CalPERS, the employer contribution rate for 2023-24 would increase from the current rate of 25.37% to 27.00%

Year	Prior Projections per SSC Dartboard	Projected Rates per Most Recent CalPERS Actuarial Report ¹
2022-23	25.37%	25.37%
2023-24	25.20%	27.00%
2024-25	24.60%	28.10%
2025-26	23.70%	28.80%

¹Projected rates reflect an investment loss for 2021-22 based on preliminary investment returns, as well as an anticipated decrease in normal cost due to new hires entering lower cost benefit tiers

Source: Schools Pool Actuarial Valuation as of June 30, 2021

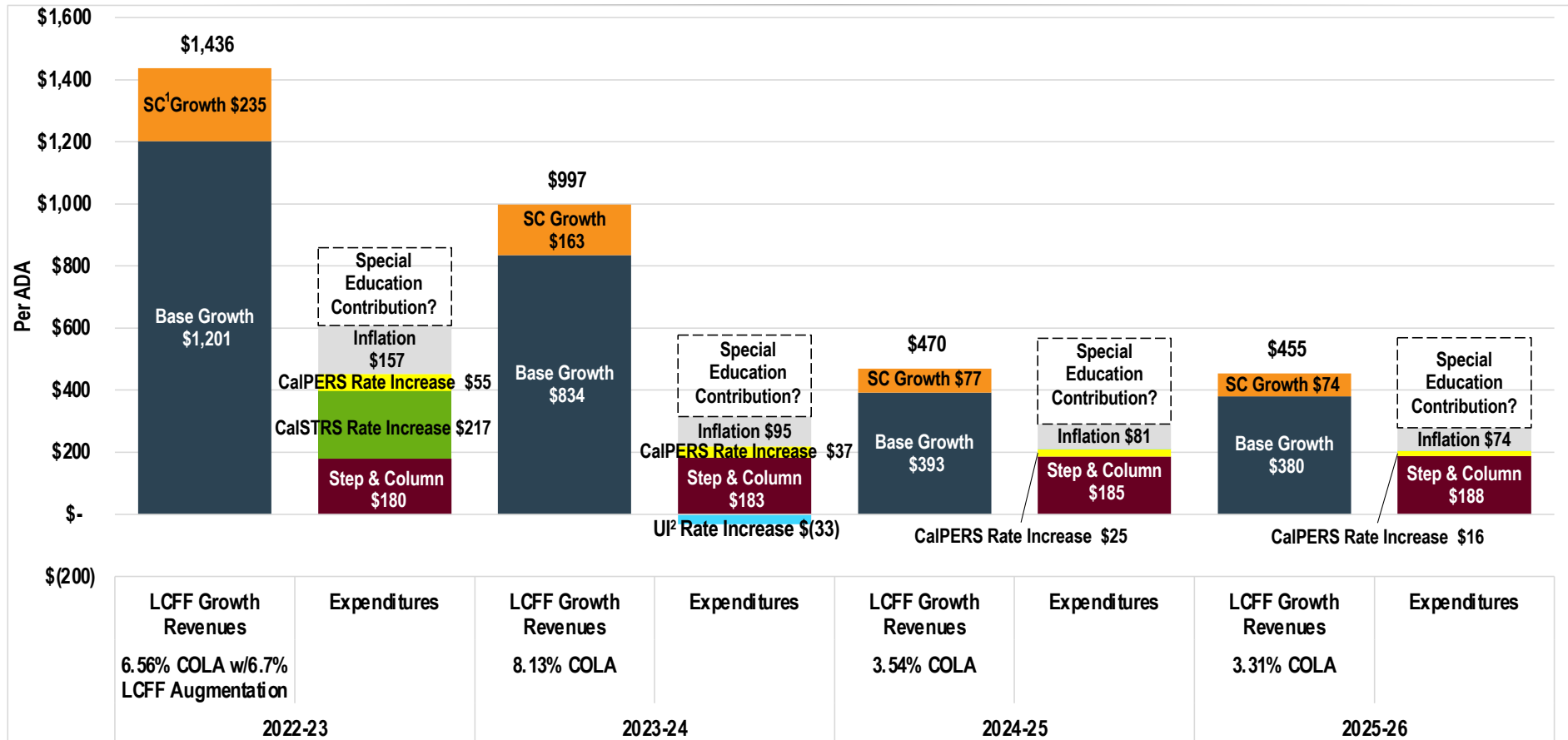
Minimum Wage Increases—Future Forecast

- Below is a table illustrating minimum wage on an hourly, weekly, monthly, and annual basis
- Based on inflation, SSC staff project that starting in 2024, the minimum wage will continue to increase by the maximum amount allowed by law through 2028

Minimum Wage	Effective Date: > 25 Employees	Effective Date: ≤ 25 Employees	Exempt Minimum Salary (Weekly)	Exempt Minimum Salary (Monthly)	Exempt Minimum Salary (Annually)
\$14.00/hour	January 1, 2021	January 1, 2022	\$1,120	\$4,853	\$58,240
\$15.00/hour	January 1, 2022	N/A	\$1,200	\$5,200	\$62,400
\$15.50/hour	January 1, 2023		\$1,240	\$5,373	\$64,480
\$16.00/hour	January 1, 2024		\$1,280	\$5,547	\$66,560
\$16.40/hour	January 1, 2025		\$1,312	\$5,685	\$68,224
\$16.80/hour	January 1, 2026		\$1,344	\$5,824	\$69,888
\$17.20/hour	January 1, 2027		\$1,376	\$5,963	\$71,552
\$17.60/hour	January 1, 2028		\$1,408	\$6,101	\$73,216

Note: Employers should review city or county ordinances to determine if any local minimum wage standards apply

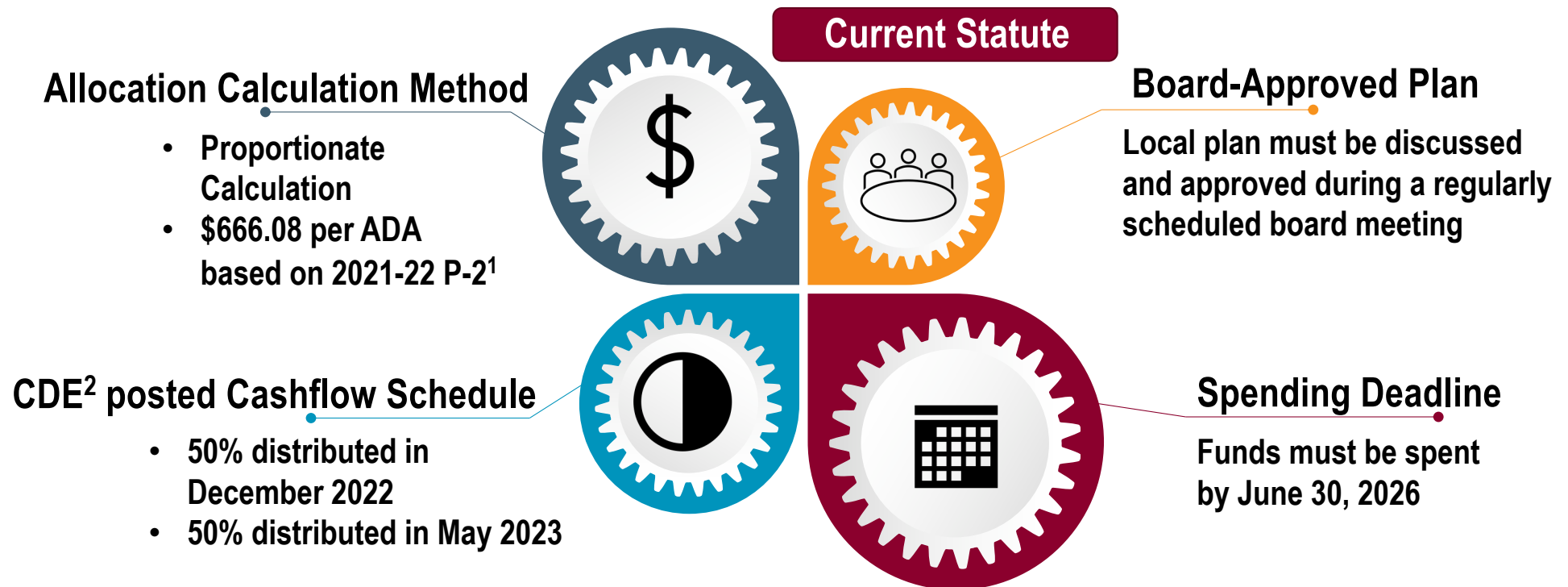
Multiyear Cost Pressures



¹Supplemental and concentration; ²Unemployment Insurance

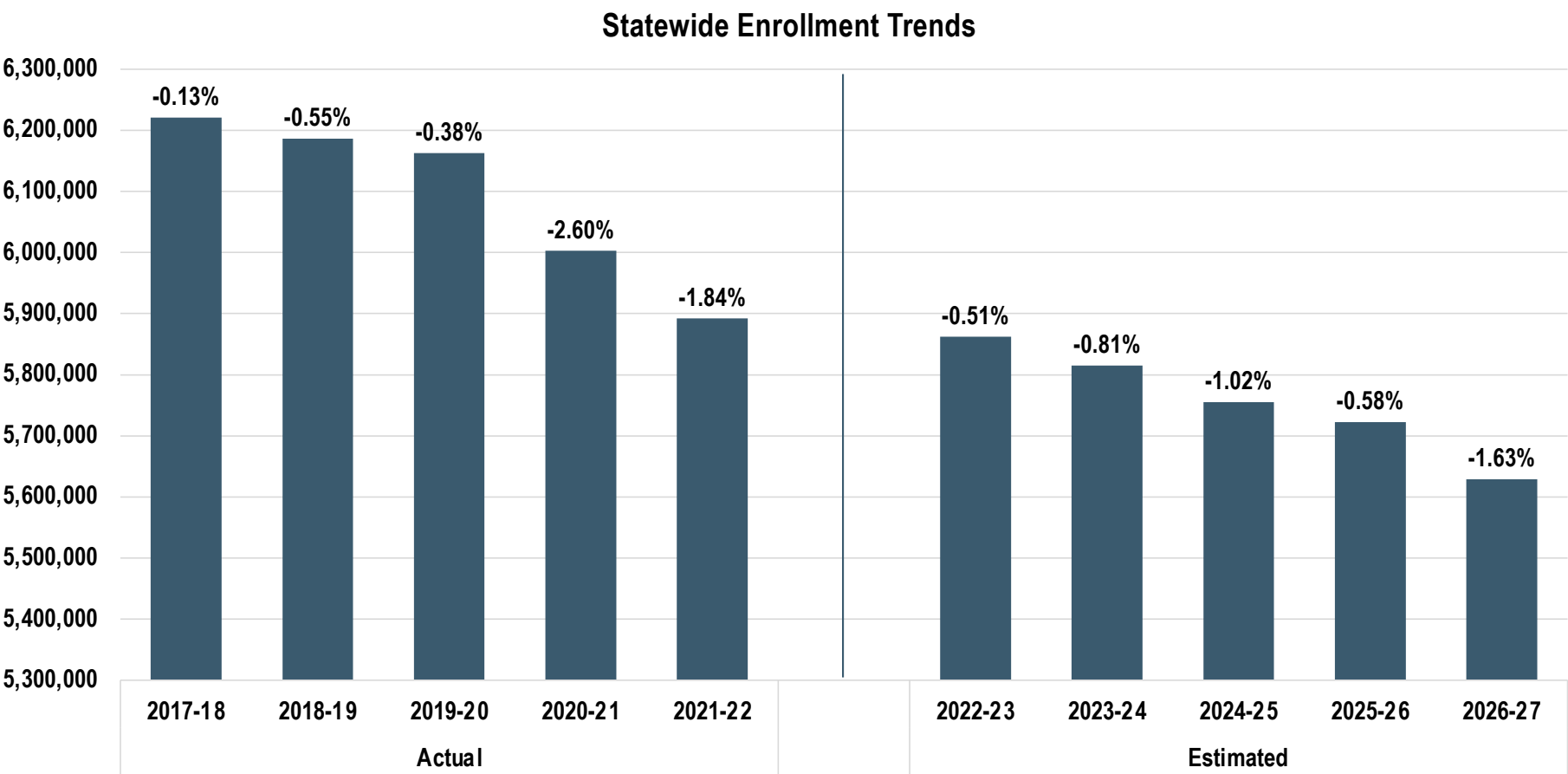
Arts, Music, and Instructional Material Block Grant—Proposed Funding Reduction

The Governor's Budget proposes a \$1.2 billion reduction in the \$3.5 billion one-time funding provided in the 2022-23 Enacted Budget package, bringing the appropriation down to \$2.3 billion



¹Second Principal Apportionment; ²California Department of Education

Statewide Enrollment Trends—Ongoing Enrollment Loss



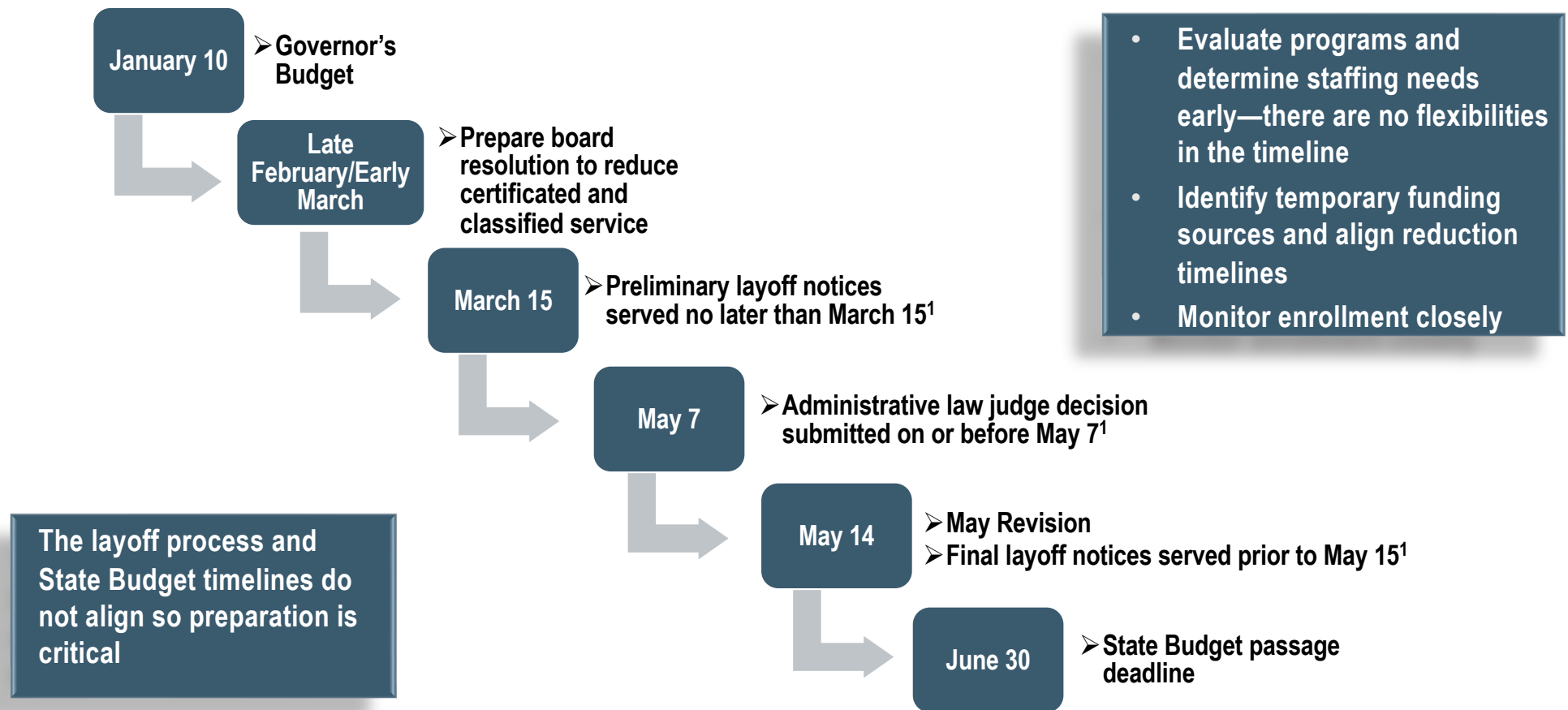
Collective Bargaining—Teacher Compensation (Statewide Averages)

- Teacher compensation data reflects salaries increased for new teachers, teachers within the mid-range of the salary schedule, and experienced teachers at maximum salary placement
 - Health and welfare contributions increased by 3.62% statewide from 2020-21 to 2021-22

	2020-21	2021-22	Percentage Change
BA +30	\$55,280	\$57,413	3.86%
BA +60, Step 10	\$80,289	\$83,406	3.88%
Maximum	\$105,944	\$110,253	4.07%
Health and Welfare District Contribution	\$14,849	\$15,387	3.62%
2021-22 Funded LCFF COLA was 5.07%			

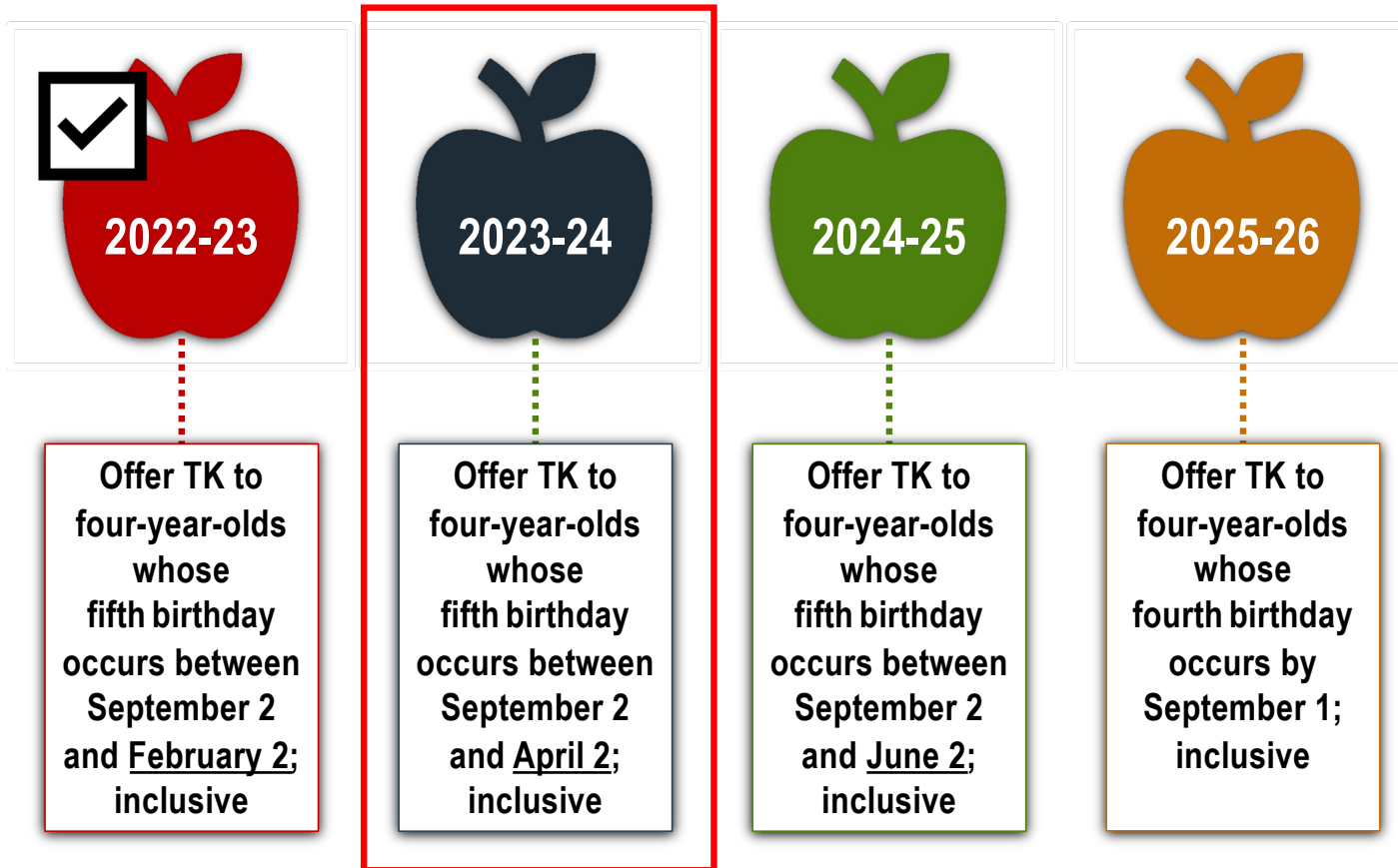
Source: J-90 data

Certificated and Classified Layoffs and State Budget Timelines



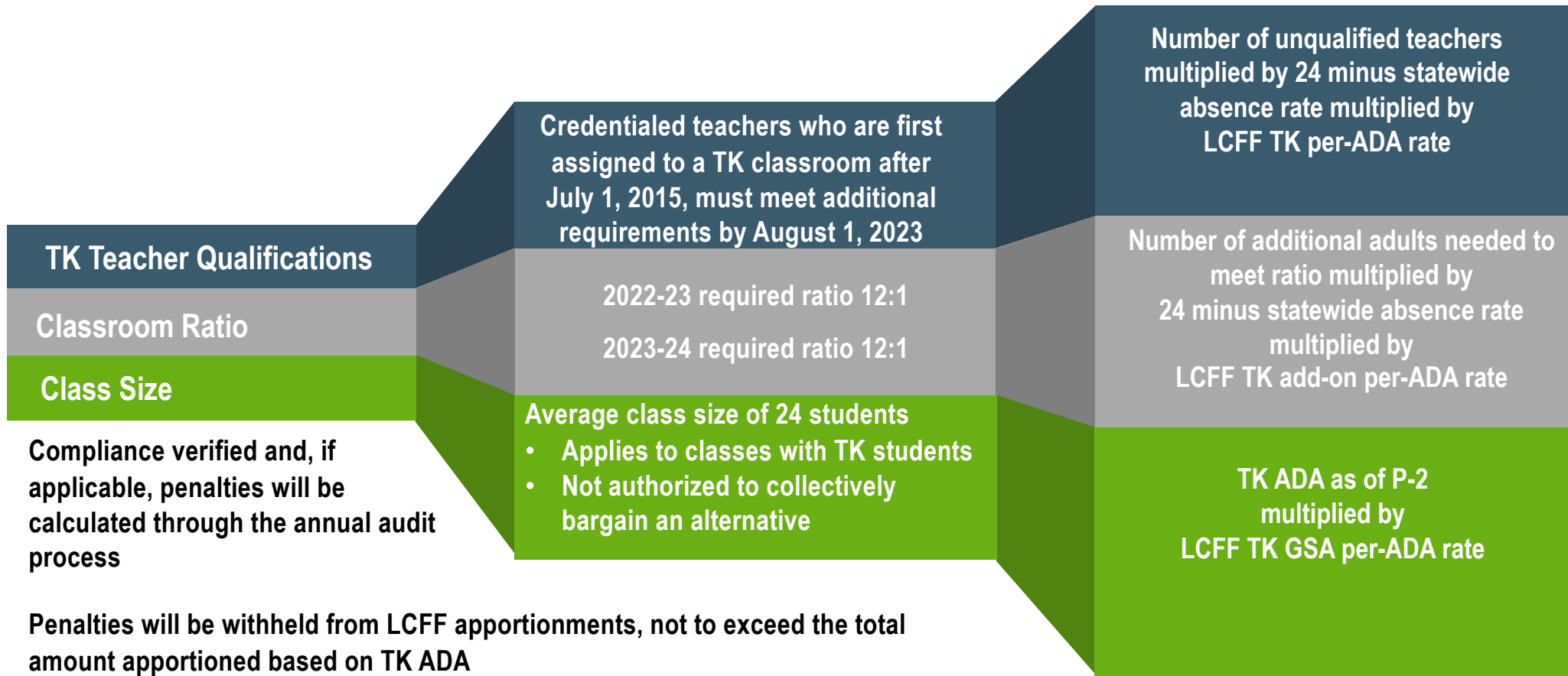
¹Statutory deadlines per Education Code Sections 44949, 44955, and 45117

Universal Transitional Kindergarten Implementation



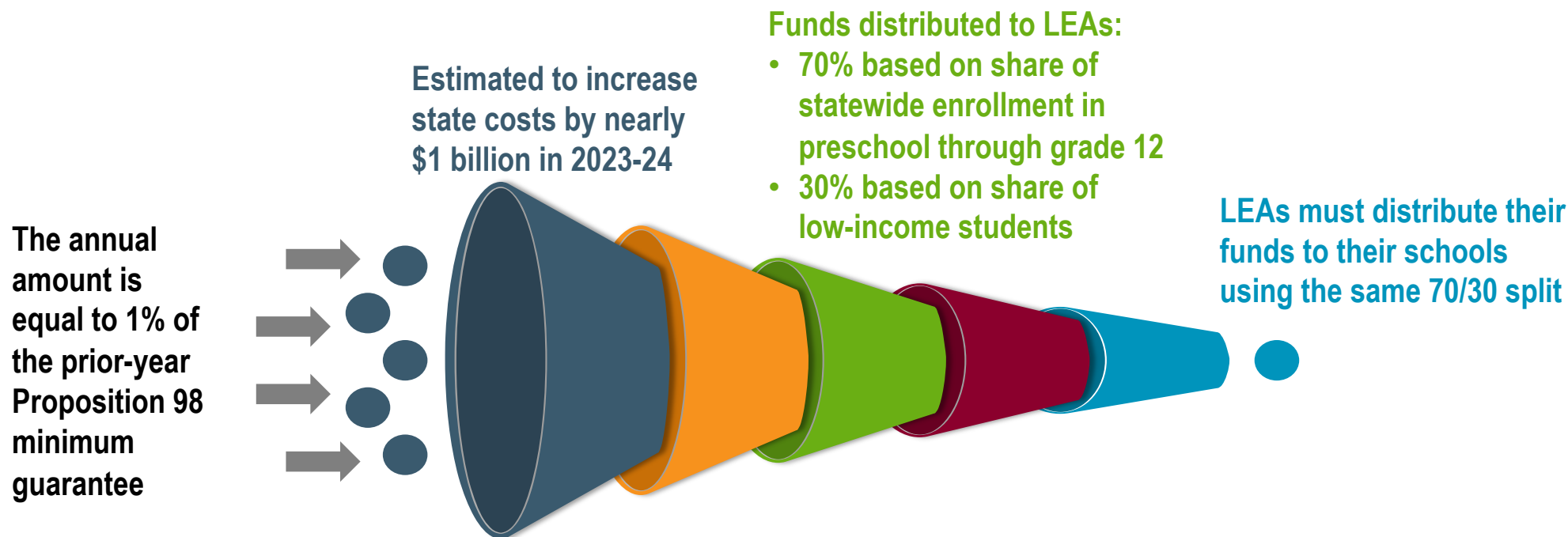
- The Governor continues to prioritize implementation of universal transitional kindergarten (UTK)
- The Governor's Budget provides an additional investment of \$690 million ongoing General Fund to implement second year of UTK expansion
- Proposition 98 minimum guarantee is "rebenched" to account for the expanded universe of TK students

UTK Penalties



Proposition 28: Arts and Music in Schools—Funding Guarantee and Accountability Act

Beginning with the 2023-24 fiscal year, requires the state to provide additional, dedicated funding originating outside of Proposition 98 for arts and music education



Federal Funding

- Just prior to the new year, Congress approved, and President Joe Biden signed, the “Consolidated Appropriations Act of 2023,” which provides federal funding through September 30, 2023
 - Includes \$79.6 billion in discretionary appropriations for education, an increase of \$3.2 billion over 2022 levels
 - Of those funds, K-12 education programs will receive \$45 billion, an increase of \$2.4 billion over 2022 levels, including:

- \$18.4 billion for Title I
- \$890 million for English language acquisition
- \$1.4 billion for Student Support and Academic Enrichment

- \$1.6 billion for Impact Aid
- \$300 million for “whole child” approaches
- \$1.3 billion for 21st Century Community Learning Centers

- \$129 million for Magnet Schools Assistance
- \$23 million for American History and Civics
- \$129 million for Education for Homeless Children and Youth

- \$1.4 billion for career technical education (CTE)
- \$32 million for CTE National Programs for Innovation and Modernization Grants
- \$729 million for Adult Education State Grants

Federal Funding—Special Education

- K-12 education includes Individuals with Disabilities Education Act (IDEA) programs for 2023
 - \$15.5 billion for special education
 - \$934 million more than fiscal year 2022
 - \$36 million for Special Olympics
- California receives approximately 10% of total IDEA allocations
- As a reminder, these increases take months to trickle down to LEA budgets

IDEA Part B, Grants
to States

\$14.2 billion

(\$850 million increase)

IDEA Part B,
Preschool

\$420 million

(\$10.5 million increase)

IDEA Part C, Infants
and Toddlers

\$540 million

(\$44 million increase)

IDEA Part D,
Personnel Preparation

\$115 million

(\$20 million increase)



Thank you