



Executive Summary on the Governor's May Revise Budget Proposal

May 23, 2023

Governor Newsom's May Revision budget proposal for the upcoming fiscal year would fund increased cost-of-living adjustments despite declining state revenues, but would also impose unexpected, deep cuts to two current-year funding programs. The following outlines our preliminary take on the May Revision based on partial information available so far.

Declining Tax Revenues and Delayed Taxes Fog State Budget Picture:

Though the May Revision assumes that California and the nation do not experience an economic recession, state tax revenues are declining. The estimated shortfall in the state's budget has increased from January's **\$9.3 billion** gap to an estimated shortfall of **\$31.5 billion**. The May Revise also outlines several other risks, including:

- In response to storms and floods earlier this year, state officials extended April's income tax filing and payment deadline to October 2023, meaning the state will need to wait several more months to have the necessary information to make sound estimates of its already declining and volatile revenues.
- Instability in the banking sector, increasing interest rates, and a potential federal debt crisis create further uncertainty regarding larger economic conditions and estimated state tax revenues.

This unprecedented set of circumstances makes this year's May Revision the least clear in years and could make it difficult for the Governor and Legislature to enact a fully baked budget by the June 15 constitutional deadline.

Key features of the May Revision for charter schools include the following:

Full Funding for Increased Local Control Funding Formula (LCFF) Cost-of-living adjustment (COLA):

The May Revision calls for fully funding an increased **8.22 percent** COLA for LCFF and other state categorical funding programs. The COLA factor increased slightly from the

8.13 percent estimate in January when the final two-quarters of data used to compute the COLA came in higher than anticipated. While this slight increase is welcome, it comes at the cost of deep cuts to current-year programs (see next item below), relies heavily on one-time state funding, and could be vulnerable to larger economic trends.

Big Retroactive Cuts to 2022-23 “One-Time” Grants

Governor Newsom proposes deep, retroactive cuts to two one-time funding programs for the current (2022-23) fiscal year, which came as a big surprise for K-12 school communities.

First, the Governor proposes cutting the Arts, Music, Instructional Materials Discretionary Block Grant by \$1.8 billion. He had proposed cutting \$1.2 billion in his January budget proposal and now proposes an additional \$607 million cut. The net result would be to cut this \$666 per-ADA one-time grant in half per our preliminary estimates. The total funding for MWA would drop from approximately **\$650K** to **\$320K**. We conservatively budgeted **\$150K** for this grant in the FY24 Original Budget.

Newsom also proposes another retroactive, \$2.5 billion cut to current-year (2022-23) funding for the Learning Recovery Emergency Block Grant. This large, one-time grant was supposed to provide \$2,936 per unit (with units computed by multiplying prior-year average daily attendance by the school’s LCFF unduplicated pupil percentage). If implemented, we preliminarily estimate that per-unit funding would drop to \$1,625, and total funding for MWA would drop from approximately **\$1.9M** to **\$1.3M**. We conservatively budgeted **\$635K** for the Learning Recovery Emergency Block Grant in the FY24 original budget.

Since CDE has already apportioned these funds, we assume it would need to implement some sort of “claw-back” or dock funds that would otherwise be due to a school.

The Preliminary Takeaway:

While a fully funded COLA is welcome in theory, paying for it with retroactive cuts is unsound. Using these one-time funds to pay for ongoing LCFF funding is also unsound, particularly given the state’s ongoing structural budget deficit. The Legislature has signaled that it has far different priorities and the adopted budget may differ significantly from the May Revision proposals.

Next Steps:

- Budget subcommittees meet to finalize recommendations (likely this week)
- Each house (Senate, Assembly) adopts “their” version

- Joint Budget Conference Committee irons-out differences between Senate/Assembly versions
- Legislative leaders negotiate with Governor toward “consensus” versions of Budget Act and “trailer bill” legislation to implement the budget
- Senate/Assembly adopt budget, “trailer bills”
- Governor signs budget, trailer bills, may use line-item veto