MEMORANDUM

TO: Teri Holoman, Associate Executive Director
    Lori Easterling, Manager, Legislative Relations

FROM: Katie Hardeman, Legislative Advocate

DATE: January 10, 2022

RE: Governor’s Proposed 2022-23 Budget

The following is a summary of the major components of the Governor’s proposed 2022-23 January Budget related to Pre-K-12 education and community colleges. More details will become available in the coming months.

Governor Newsom’s Overall Budget

Governor Newsom’s overall budget includes $286.5 billion in total funds ($213.1 billion General Fund). The Governor’s budget projects $34.6 billion in budgetary reserves. These reserves include: $20.9 billion in the Proposition 2 (Prop 2) Budget Stabilization Account (Rainy Day Fund) for fiscal emergencies; $9.7 billion in the Public School System Stabilization Account; $900 million in the Safety Net Reserve; and $3.1 billion in the state’s operating reserve. The Rainy Day Fund is now at its constitutional maximum (10 percent of General Fund revenues) requiring $2.4 billion to be dedicated for infrastructure investments in 2022-23.

The Budget accelerates the paydown of state retirement liabilities as required by Prop 2, with $3.9 billion in additional payments in 2022-23 and nearly $8.4 billion projected to be paid over the next three years.

State Appropriations Limit – The Governor’s budget projects the State Appropriations Limit or "Gann Limit" will likely be exceeded in the 2020-21 and 2021-22 fiscal years by approximately $2.6 billion. Any funds above this limit are constitutionally required to be allocated evenly between schools and a tax refund. An updated calculation of this limit, and proposals to address it, will be included in the May Revision.

Tax Credits – The 2020 Budget Act temporarily limited the use of Net Operating Losses (NOLs) and business tax credits, including the Research and Development (R&D) credit, from 2020-21 through 2022-23. Due to the improved economic condition, the Governor’s budget proposes to restore these NOLs and credits one year earlier than planned the cost of $5.5 billion in 2022-23. Additionally, the Governor’s budget proposes two new tax credits aimed at addressing climate change, resulting in a revenue loss of approximately $350 million annually for three years.

COVID-19 Supplemental Paid Sick Leave – SB 95 (Chapter 13, Statues of 2021) required employers to provide COVID-19 Supplemental Paid Sick Leave to covered employees through September 30, 2021. The Governor’s Budget Summary recognizes that “Given the current state of the pandemic, and new
developments and science learned since the passage of SB 95, new legislation is needed to modify the previous COVID-19 Supplemental Paid Sick Leave policy in an appropriate manner to ensure the safety of the state's workforce.”

**Proposition 98**

The Proposition 98 (Prop 98) minimum funding level for the 2022-23 budget is projected to be $102 billion, equating to an $8.2 billion increase from the 2021-22 Budget Act. Prop 98 is estimated to be $95.9 billion in 2020-21 and $99.1 billion in 2021-22, representing a three-year increase in the minimum guarantee of $16.1 billion over the level funded in the 2021 Budget Act. The Prop 98 Test 1 is projected to be operative for fiscal years 2020-21 through 2022-23, which means the Prop 98 guarantee is equal to approximately 38 percent of General Fund revenues, plus local property tax revenues.

**Proposition 98 Rainy Day Fund**—Prop 2, enacted by voters in 2014, established the Public School System Stabilization Account, or Prop 98 Rainy Day Fund. The budget includes payments of $3.1 billion in 2020-21, $3.6 billion in 2021-22, and $3.1 billion in 2022-23 into the Prop 98 Rainy Day Fund, for a balance of more than $9.7 billion at the end of 2022-23. Under current law, school district reserves are capped at 10 percent in fiscal years immediately succeeding those in which the balance of the Prop 98 Rainy Day Fund is equal to or greater than 3 percent of the total K-12 share of the Prop 98 guarantee. The balance of $6.7 billion in 2021-22 triggers school district reserve caps beginning in 2022-23.

**Per Pupil Spending for K-12 Education**—The Governor’s budget includes total funding of $119 billion ($70.5 billion General Fund and $48.5 billion other funds) for all K-12 education programs. K-12 per-pupil funding totals $15,261 Prop 98 ($1,284 above the 2021 Budget Act) and $20,855 per pupil when accounting for all funding sources ($297 below the 2021 Budget Act due to the decrease in federal funding).

**Pension Payments**

The 2020 Budget Act included $2.3 billion in one-time non-prop 98 General Fund to buy down employer (local educational agencies and community colleges) contribution rates for the California State Teachers’ Retirement System (CalSTRS) and California Public Employees’ Retirement System (CalPERS) in 2020-21 and 2021-22 ($1.15 billion in each year).

The Governor’s budget does not propose any additional funding to address rising pension rates for local educational agencies (LEAs) in 2022-23.

**K-12 Spending Proposals**

**Local Control Funding Formula (LCFF)**—The Governor’s budget includes $3.3 billion in ongoing Prop 98 funding to provide a 5.33 percent cost-of-living adjustment (COLA). This increase brings total LCFF funding to $70.5 billion.

**Average Daily Attendance Decline**—Due to the pandemic, the state provided an ADA hold harmless in 2020-21 to allow local educational agencies (LEAs) to receive funding based on their 2019-20 (pre-pandemic) ADA. Existing law also includes a hold harmless provision in the LCFF, which allows school
districts (not charter schools or county offices of education) to receive the higher of their current year or prior year ADA. As a result, in 2021-22, school districts were still able to use their 2019-20 ADA.

However, in 2022-23, LEAs will be required to use the higher of their 2021-22 and 2022-23 ADA, resulting in reduced funding for some LEAs. The Governor’s January budget proposes changes to the ADA component of the LCFF to help districts better manage declining enrollment. Specifically, the budget proposes to amend the LCFF calculation to the greater of a school district’s current year, prior year, or the average of three prior years’ ADA. Additionally, the Administration intends to explore options for providing declining enrollment protections for charter schools. The cost associated with these policies is estimated to be $1.2 billion in ongoing Prop 98 funding.

**Independent Study** – The 2021-22 budget included changes to the independent study program to allow LEAs to earn apportionment for non-classroom-based instruction. Independent study will continue to be an option for LEAs. The Governor’s budget proposes the following changes to the independent study program:

- Allow synchronous instruction to count for instructional time in traditional independent study, in addition to student work product.
- Provide flexibility on the timeline for an LEA to collect a signed independent study plan.

**Expanded Learning Opportunities Program** – The 2021 Budget Act provided $1 billion ongoing funds and $754 million one-time Prop 98 funding for the Expanded Learning Opportunities Program, which by 2025-26 will provide all students in low-income communities with no-cost access to nine hours of developmentally appropriate academics and enrichment activities per instructional day and for six weeks each summer. The Governor’s budget proposes an additional $3.4 billion ongoing Prop 98 funding for the Expanded Learning Opportunities Program, increasing per-pupil funding for the program and expanding the number of participating LEAs. This brings total ongoing program funding to $4.4 billion, with additional funds anticipated in future years. The budget also proposes $937 million one-time Prop 98 funding to support Expanded Learning Opportunities Program infrastructure, with a focus on integrating arts and music programming into the enrichment options for students.

The Governor’s budget continues one-time reimbursement rate increases (at a cost of $148.7 million ongoing Prop 98 funding) for the After School Education and Safety (ASES) and 21st Century Community Learning Centers programs.

**Special Education** – The Governor’s budget provides an additional $500 million in ongoing Prop 98 funding for special education through the AB 602 formula. Additionally, the Governor’s budget includes the following policy proposals related to special education:

- Amend the special education funding formula to calculate special education base funding allocations at the LEA level rather than the special education local plan area (SELPA) level (funding would still be allocated to the SELPA).
- Consolidate two special education extraordinary cost pools into a single cost pool.
- Allocate educationally-related Mental Health Services funding directly to LEAs rather than to SELPAs.
- Develop a Special Education Addendum to the Local Control and Accountability Plan to support inclusive planning.
• Support efforts to develop comprehensive Individualized Education Programs (IEPs) by focusing a special education resource lead on IEP best practices and establishing an expert panel to continue the work of creating a model IEP template.

• Establish an alternate diploma and a workgroup to explore alternative coursework options for students with disabilities to demonstrate completion of the state graduation requirements.

**College and Career Pathways** – The Governor’s budget proposes $1.5 billion one-time Prop 98 funding over four years to support the development of pathway programs focused on technology (including computer science, green technology, and engineering), health care, education (including early education), and climate-related fields. These programs are predicated on developing local partnerships that bring together school systems, higher education institutions, employers, and other relevant community stakeholders.

Additionally, the budget proposes $500 million one-time Prop 98 funding, available over four years, to strengthen and expand student access and participation in dual enrollment opportunities that are also coupled with student advising and support services.

The Governor’s budget also includes an increase of $2 million ongoing Prop 98 funding to support an augmentation to the Agricultural Career Technical Education Incentive Grant program.

**School Transportation** – The Governor’s budget proposes $1.5 billion one-time Prop 98 funding, available over three years, to support school transportation programs. Specifically, grants of at least $500,000 would be available with priority for LEAs with high concentrations of low-income students, youth in foster care, and English language learners, as well as small and rural LEAs. The funding could be used to acquire an electric school bus, construct the bus’s charging station, and support other local school bus transportation needs.

**School Nutrition** – The Governor’s budget includes $596 million Prop 98 funding, on top of $54 million provided in the 2021 Budget Act, to fund universal access to subsidized school meals. Beginning in the 2022-23 school year, all public schools will be required to provide two free meals per day to any student who requests a meal, regardless of income eligibility. Additionally, all eligible schools will be required to apply for the federal universal meals program by June 30, 2022 (if they are not already participating).

The Governor’s budget also includes the following investments in school nutrition:

• $450 million one-time Prop 98 funding, available over three years, to upgrade school kitchen infrastructure and equipment to incorporate more fresh, minimally processed California-grown foods in school meals.

• $3 million one-time Prop 98 funding to support the School Breakfast and Summer Meal Start-Up and Expansion Grant Program.

• $30 million one-time General Fund to establish additional farm to school demonstration projects and $3 million ongoing General Fund to expand the regional California Farm to School Network by adding 16 new positions at the California Department of Food and Agriculture.

**Educator Workforce** – The Governor’s budget includes $54.4 million in a mix of Prop 98 and General Fund to build upon the multi-year investments included in the 2021 Budget Act to support efforts to enhance schools’ ability to hire qualified teachers and substitutes. Specifically, the budget proposes:
• $24 million one-time General Fund to waive certain teacher examination fees.
• $12 million one-time General Fund to extend the waiver of select credentials fees.
• $10 million one-time General Fund to support a competitive grant program that provides grants to public and private institutions to develop and implement integrated teacher preparation programs.
• $5.2 million Prop 98 and $322,000 General Fund to re-establish the Personnel Management Assistance Teams to assist local educational agencies in improving hiring and recruitment practices.
• $1.4 million General Fund to establish career counselors for prospective educators at the Commission on Teacher Credentialing (CTC).
• $924,000 General Fund, of which $161,000 is one-time, to support the CTC’s administration of multiple grant programs and fee waivers.
• $900,000 General Fund for the CTC to contract for public outreach to highlight the value and benefits of educational careers in California’s schools.
• Extending statute authorizing any holder of a credential or permit issued by the CTC to serve in a substitute teaching assignment aligned with their authorization, including for staff vacancies, for up to 60 cumulative days for any one assignment.

Early Literacy – Early literacy is a high priority for Governor Newsom. The Governor’s budget includes the following targeted investments related to supporting early literacy:

• $500 million one-time Prop 98 funding, available over five years, for grants to high-needs schools to train and hire literacy coaches and reading specialists to guide productive classroom instruction and to offer one-on-one and small group intervention for struggling readers.
• $200 million one-time Prop 98 funding to establish a grant program to enable local educational agencies to create or expand multi-lingual school or classroom libraries offering culturally relevant texts to support reading instruction.
• $10 million one-time General Fund for the Department of Public Health to partner with First 5 California on the Books for Children Program. More information on this initiative can be found in the Health and Human Services Chapter.
• $2 million one-time General Fund to incorporate early identification for learning disabilities into the state’s preschool assessment tools, including a process for follow-up by expert evaluators, and $60 million one-time Prop 98 funding to provide training for educators on effective use of these tools.
• Clarifies that the Expanded Learning Opportunities Program funds can be used to hire literacy tutors.

School Facilities – The Governor’s budget allocates the remaining Proposition 51 (Prop 51) bond funds (approximately $1.4 billion) to support school construction projects.

Additionally, because Prop 51 bond authority is expected to be exhausted in 2022-23, the budget proposes approximately $1.3 billion one-time General Fund in 2022-23 and $925 million one-time General Fund in 2023-24 to support new construction and modernization projects through the School Facility Program. The budget also includes $30 million ongoing Prop 98 funding to support eligible facilities costs for the Charter School Facility Grant Program.
COLA – The budget includes $295 million ongoing Prop 98 funding to provide a 5.33 percent COLA for categorical programs outside the LCFF, including special education, child nutrition, State Preschool, youth in foster care, the mandate block grant, American Indian education centers, and the American Indian early childhood education program. The budget also includes $11.5 million in ongoing Prop 98 funding for a 5.33 percent COLA and ADA changes for county offices of education.

Community Schools – The 2021-22 Budget included $3 billion in one-time Prop 98 funding for LEAs to expand existing community schools and establish new community schools, with priority given to schools in high-poverty communities. The Governor’s proposed budget does not provide additional funding for community schools, but the Administration has indicated that “clean-up,” or minor changes to the grant program may be proposed in the coming months.

Model Curricula – The Governor’s budget includes an increase of $14 million one-time Prop 98 funding to support county offices of education in developing model curricula related to the Vietnamese American refugee experience, the Cambodian genocide, Hmong history and cultural studies, and Native American studies.

Early Childhood Education

The Governor’s January budget includes the following investments in early childhood education:

Transitional Kindergarten – The Governor’s budget proposes $639.2 million General Fund to expand eligibility for transitional kindergarten, from all children turning five-years-old between September 2 and December 2 to all children turning five-years-old between September 2 and February 2, beginning in the 2022-23 school year. These funds will “rebench,” or increase, the Prop 98 guarantee. Additionally, the Budget proposes $383 million Prop 98 funding to add one additional certificated or classified staff person to every transitional kindergarten class, reducing student-to-adult ratios to align with the State Preschool Program more closely.

State Preschool Program – The Governor’s budget includes $197.8 million Prop 98 funding and $110.6 million General Fund to increase the State Preschool Program adjustment factors for students with disabilities and dual language learners. These adjustment factor increases are intended to fund new requirements for State Preschool providers to: (1) serve at least 10 percent students with disabilities, and (2) provide additional supportive services for dual language learners. Additionally, the budget proposes providing continuous eligibility for 24 months (increased from 12 months) for the State Preschool program, expanding eligibility to include all children with an individualized education program, and allow Preschool providers that have served all eligible three- and four-year-olds to serve two-year-old children.

Additionally, the budget includes $166.2 million Prop 98 funding to cover full-year costs of State Preschool rate increases that began on January 1, 2022.

The budget also proposes $500 million one-time Prop 98 funding to support the Inclusive Early Education Expansion Program, which funds infrastructure necessary to support general education and special education students in inclusive classrooms.
California Community Colleges

The Governor’s budget provides a total of $12.7 billion in Prop 98 funding and property taxes for community colleges, an increase of $559.9 million, or 4.6 percent, compared to 2021-22. Specific spending proposals include:

- **Apportionments** – The budget includes an increase of $409.4 million in Prop 98 funding for a 5.33 percent cost-of-living adjustment (COLA) for apportionments and $24.9 million ongoing Prop 98 funding for 0.5 percent enrollment growth.

- **Student Centered Funding Formula (SCFF)** – The SCFF’s hold harmless provision, which ensures community colleges receive the greater of the formula’s core funding computation or their 2017-18 funding level annually adjusted by a cost-of-living adjustment (COLA), is currently set to expire after 2024-25. To prevent fiscal declines between 2024-25 and 2025-26, the budget proposes to create a funding floor for districts that allows all districts to transition to the core formula over time. The proposal allows 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 Administration also supports the recommendation made by the Student Centered Funding Formula 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.

- **Deferred Maintenance** – The Governor’s budget provides $387.6 million one-time Prop 98 funding 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 2020-2021.

- **Part-Time Faculty Health Insurance** – The Governor’s budget includes an increase of $200 million ongoing Prop 98 funding to augment the Part-Time Faculty Health Insurance Program to expand healthcare coverage provided to part-time faculty by community college districts.

- **Student Enrollment and Retention** – The 2021-22 budget included $120 million one-time Prop 98 funding for community colleges to address student enrollment and retention, due to the enrollment declines during the pandemic. The Governor’s budget includes an additional $150 million one-time Prop 98 funding to continue to support community college efforts and focused strategies to increase student retention rates and enrollment.

- **Healthcare Vocational Education** – The budget proposes an increase of $130 million one-time Prop 98 funding, 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 across all levels of English proficiency, through the Adult Education Program.

- **CCC Technology Modernization and Sensitive Data Protection** – The budget includes an increase of $100 million Prop 98 funding, 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.

- **Emergency Financial Assistance Grants** – The budget provides an increase of $20 million one-time Prop 98 funding to support emergency student financial assistance grants to eligible undocumented students.
- **Pathways Grant Program for High-Skilled Careers** – The Governor’s budget provides an increase of $20 million one-time Prop 98 funding for a grant program that incentivizes public-private partnerships that prepare students in grades 9 to 14 for the high-skill fields of education and early education; science, technology, engineering and mathematics (STEM); and healthcare.

- **CCC Teacher Credentialing Partnership Program** – The budget includes an increase of $5 million one-time Prop 98 funding to support the CCC Teacher Credentialing Partnership Program.

- **African American Male Education Network and Development (A2MEND) Student Charters** – The Governor’s budget provides an increase of $1.1 million ongoing Prop 98 funding to support the expansion of A2MEND student charters to an increased number of community college districts.

- **Support for Umoja Program Study** – The budget includes an increase of $179,000 one-time Prop 98 funding to support a study of the Umoja program practices that promote student success for African American students.

- **CCC Facilities** – The Governor’s budget provides $373 million one-time Prop 51 bond funding for the construction phase of 17 projects anticipated to complete design by spring 2023, and the working drawings phase of 1 project. This allocation represents the next installment of the $2 billion available to CCCs under Prop 51.

**CCC Roadmap** – The budget includes several investments intended to align with the California Community College’s multi-year roadmap, including:

- $100 million ongoing Prop 98 funding for students newly eligible for the Student Success Completion Grant due to expanded Cal Grant B and Cal Grant C eligibility for community college students.
- $105 million one-time Prop 98 funding to support the systemwide implementation of a common course numbering system.
- $65 million one-time Prop 98 funding for community colleges to implement the transfer reform provisions required by Chapter 566, Statutes of 2021 (AB 928).
- $25 million one-time Prop 98 funding to assist community colleges with the procurement and implementation of software that maps intersegmental curricular pathways to help students choose their pathway, facilitate streamlined transfer between segments, and reduce excess units taken on the path to degree or program completion.
- $10 million ongoing Prop 98 funding to support the sustainable implementation of Equal Employment Opportunity program best practices to diversify community college faculty, staff, and administrators.
- $10 million ongoing Prop 98 funding to augment resources provided to community college financial aid offices.
- $10 million ongoing Prop 98 funding to expand the availability of foster youth support services offered by the NextUp program from 20 districts to 30 districts.

*Please note these are only highlights and more details will be forthcoming.* Additional trailer bill language related to these proposals will be posted on or before February 1st. As always, please keep in mind, this is only a “proposal” and must be negotiated through the Legislative process.
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