



MEMORANDUM

TO: Eric Kaljumägi, CCA President
Randa Wahbe, CCA Vice President

FROM: Katie Hardeman, Legislative Advocate

DATE: May 12, 2023

RE: Governor's Proposed 2023-24 May Revision

The following is a summary of the major components of the Governor's proposed 2023-24 May Revision related to Proposition 98 (Prop 98) and community colleges. The May Revision includes updated revenue estimates and changes to the Governor's proposed January Budget.

Governor Newsom's Overall Budget

Governor Newsom's revised budget includes \$306 billion in total funds (\$224 billion General Fund). Since the release of the Governor's January budget, the state has seen monthly revenue shortfalls, resulting in a General Fund revenue estimate shortfall of \$9.3 billion at the May Revision. When combined with the \$22.5 billion shortfall at the January Budget and other adjustments, California is now facing a **\$31.5 billion** budget deficit. Further, the federal and state tax filing deadline delays provide greater uncertainty in the state's projected revenues.

The Governor proposes addressing the budget shortfall using a variety of solutions, including funding delays, funding reductions/pullbacks, fund shifts, trigger reductions, revenue generation, borrowing and a withdrawal of \$450 million from the Safety Net Reserve.

The May Revision includes \$37.2 billion in total budgetary reserves. These reserves include \$22.3 billion in the Budget Stabilization Account, \$10.7 billion in the Public School System Stabilization Account, \$450 million in the Safety Net Reserve, and \$3.8 billion in the state's operating reserve – the Special Fund for Economic Uncertainties. As the Budget Stabilization Account balance is at its constitutional maximum amount, a total of \$2.3 billion is required to be dedicated to infrastructure investments in 2023-24. The May Revision accelerates the paydown of state retirement liabilities as required by Proposition 2, with \$2.3 billion in additional payments in 2023-24 and approximately \$5.1 billion projected to be paid over the next three years.

Tax Proposals – The May Revision includes tax relief to Californians who have student loans or fees discharged as part of financial relief to individuals impacted by economic disruptions and hardships from the COVID-19 Pandemic. These changes were recently passed through legislation as part of early budget action.

The May Revision also maintains the January proposal to extend the existing Film and Television Tax Credit Program for five years beginning in 2025-26 and proposes to allow the credit to be "refundable"

prospectively, allowing for those productions without tax liability to be eligible for a tax refund at a discounted value over multiple years.

Child Savings Accounts – The CalKIDS program provides colleges savings accounts targeted to low-income and underrepresented public-school students, in addition to establishing college savings accounts for all newborns. The May Revision maintains the January proposal to utilize available resources within the program to increase incentive payments to parents choosing to open an account for their newborn child from \$25 to \$100.

Proposition 98

The Proposition 98 (Prop 98) minimum funding level is estimated to be \$110.6 billion in 2021-22, \$106.8 billion in 2022-23, and \$106.8 billion in 2023-24, representing a three-year decrease in the minimum guarantee of \$2 billion compared to the Governor’s January Budget.

The Prop 98 Test 1 is projected to be operative for fiscal years 2021-22 through 2023-24, which means the Prop 98 guarantee is equal to approximately 38 percent of General Fund revenues, plus local property tax revenues.

The Governor’s May Revision maintains the commitment to “rebench” Prop 98 upward in 2023-24 to reflect the continued implementation of Universal Transitional Kindergarten (TK), with full implementation anticipated in 2025-26. The May Revision updates the cost to “rebench” Prop 98 from \$604 million at the January Budget to \$357 million at the May Revision to reflect revised enrollment estimates. Additionally, in 2024-25, the Prop 98 guarantee will be “rebenched” pursuant to the requirements of the Arts and Music in Schools – Funding Guarantee and Accountability Act (approved by voters in November 2022 with Prop 28), estimated to be \$933 million at the May Revision.

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 Governor’s January budget projected a balance of \$8.5 billion in this fund between 2021-22, 2022-23, and 2023-24. The May Revision estimates increased capital gains revenues, requiring \$2.2 billion in additional Prop 98 Rainy Day Fund deposits and increasing the total balance to \$10.7 billion, the constitutional cap for the 2023-24 fiscal year.

California Community Colleges

The Governor’s May Revision provides a total of \$12.3 billion in Prop 98 funding for the California community colleges (CCC) in 2023-24. The Governor’s May Revision proposes additional ongoing resources of approximately \$746 million to the CCCs appropriations and categorical programs, as compared to the 2022 Budget Act, somewhat lower than proposed in January. Specific spending proposals include:

- **Apportionments** – The May Revision includes \$678 million ongoing Prop 98 funding for an 8.22 percent COLA for community college apportionments, \$25.4 million more than the Governor proposed in January for a COLA of 8.13 percent. The May Revision also includes a decrease of \$2.4 million ongoing Prop 98 funding needed to sustain 0.5 percent enrollment growth. The May Revision proposes to use approximately \$503 million in one-time Prop 98 funding to support ongoing Student-Centered Funding Formula costs for 2023-24.

- **CCC Categorical Program COLA** – The May Revision includes an additional \$3 million ongoing Prop 98 funding to provide an 8.22 percent COLA for select categorical programs and the Adult Education Program, on top of the approximately \$92 million included in the Governor’s January Budget.
- **Student Success and Completion Grant Program** – The May Revision proposes a decrease of \$50 million one-time Prop 98 funding to reflect revised program participation estimates, bringing the cumulative 2023-24 support for this program to a total of approximately \$362.6 million.
- **California Community College COVID-19 Recovery Block Grant**— The May Revision includes a decrease of approximately \$345 million one-time Prop 98 funding in support of the California Community College COVID-19 Recovery Block Grant, bringing the block grant amount to \$305 million one-time Prop 98 funding.
- **Student Enrollment and Retention** – The May Revision includes a reduction of \$100 million in one-time Prop 98 funding to support community colleges’ efforts and strategies to increase student retention rates and enrollment, bringing the total in 2023-24 to \$100 million one-time Prop 98 funding. This proposed funding is building on the one-time investments of \$120 million in 2021-22 and \$150 million in 2022-23.
- **Categorical Flexibility** – The May Revision proposes to provide all CCC districts with spending flexibility beginning in 2023-24 for the following categorical programs:
 - Student Equity and Achievement Program
 - Student Financial Aid Administration
 - Student Mental Health Resources

The proposal would stipulate that after five years, the CCC Chancellor’s Office would assess district-level progress in meeting certain roadmap goals and districts not making progress would have their spending flexibility revoked and offered technical assistance. The May Revision also proposes to expand eligible uses of the funding for the CCC Strong Workforce Program funding, including providing funds for student grants to cover fees for their-party certification and licensing and supporting applied and experiential learning in the workplace.

- **Deferred Maintenance** – The May Revision includes a decrease of approximately \$239 million one-time Prop 98 funding for deferred maintenance needs, for a total reduction of \$452 million one-time Prop 98 funding when combined with the reduction proposed in the Governor’s January Budget.
- **Enrollment Monitoring** – The May Revision does not include a specific proposal related to adjusting district budgets due to lost enrollment. However, the Administration has indicated that they will continue to monitor district-level enrollment trends.
- **Other Programs** – The May Revision maintains the following proposals included in the Governor’s January Budget:
 - **Workforce Training Grants** – Includes an increase of \$14 million one-time Prop 98 funding to support the administration of workforce training grants in collaboration with the California Department of Forestry and Fire Protection.
 - **Chief Business Officer Mentorship Program** – Provides \$275,000 Prop 98 funding (of that \$200,000 is ongoing) to develop a community college chief business officer professional learning program, administered by the Fiscal Crisis Management Assistance Team to improve district leadership and fiscal accountability.

The May Revision includes the following new CCC proposals:

- **LGBTQ+ Pilot Project**—An increase of \$10 million a year for three years Prop 98 funding to support the Los Angeles Community College District LGBTQ+ Pilot Project.
- **East Los Angeles College Entrepreneurship and Innovation Center**— Provides an increase of \$2.5 million one-time Prop 98 funding for the East Los Angeles College Entrepreneurship and Innovation Center.

Student Housing – The 2021 and 2022 Budget Acts included a total of \$2.2 billion, over a three-year period, for the Higher Education Student Housing Grant program, to provide grants for the CCCs, CSU and UC to construct student housing for low-income students. The Governor’s January budget proposed to delay \$250 million of the anticipated 2023-24 funding to the 2024-25 fiscal year. The May Revision instead proposes \$450 million in one-time General Fund for 2023-24 and \$95.4 million one-time General Fund for 2024-25 for CCC affordable student housing projects. The May Revision also proposes to shift approximately \$1.1 billion in current and planned General Fund support for UC and CSU affordable student housing grants from General Fund to UC and CSU-issued bonds, and reflects an increase of \$75 million in ongoing General Fund to support the debt service on those bonds.

Additionally, the 2022 Budget Act included intent language to provide \$1.8 billion one-time General Fund over a two-year period in 2023-24 and 2024-25, to establish a student housing revolving loan program for the UC, the CSU, and the CCCs. The Governor’s May Revision maintains the proposal from January to delay \$900 million planned in 2023-24 to the 2025-26 fiscal year and delay \$250 million from the 2024-25 fiscal year to the 2025-26 fiscal year. This delay would result in \$650 million in 2024-25 and \$1.15 billion in 2025-26 being available for the program.

Please note these are only highlights and more details will be forthcoming. As always, please keep in mind, this is only a “proposal” and must be negotiated through the Legislative process.

CC: Joe Boyd
Becky Zoglman
Daniel Koen
Claudia Briggs
Michael Borges