

CALIFORNIA: GOVERNOR'S PROPOSED BUDGET SUMMARY

January 10, 2023

General Budget Overview

On January 10, Governor Newsom released his proposed 2023-2024 California State budget. As 2023 begins, risks to the state's economic and revenue outlook highlighted in the 2022 Budget have been realized—continued high inflation, multiple federal reserve bank interest rate increases, and further stock market declines. This last risk is particularly important to California, as market-based compensation—including stock options and bonus payments—greatly influences the incomes of high-income Californians.

Given these developments, the revenue outlook is substantially different than seen in the last two years. Prior to accounting for solutions, the Governor's Budget forecasts General Fund revenues will be \$29.5 billion lower than at the 2022 Budget Act projections, and California now faces an estimated budget gap of \$22.5 billion in the 2023-24 fiscal year. In total, the proposed California budget is \$297 billion in total state funds.

- The balanced plan reflected in the Governor's Proposed Budget to close the projected shortfall includes:
 - **Funding Delays**—\$7.4 billion. The Budget delays funding for multiple items across the 2021-22 through 2023-24 fiscal years and spreads it across the multi-year without reducing the total amount of funding through the multi-year.
 - **Reductions/Pullbacks**—\$5.7 billion. The Budget reduces spending for various items across the 2021-22 through 2023-24 fiscal years and pulls back certain items that were included in the 2022 Budget Act to provide additional budget resilience. Significant items in this category include the \$3 billion included in the 2022 Budget as an inflationary adjustment, and a \$750 million Unemployment Trust Fund payment in the 2023-24 fiscal year.
 - **Fund Shifts**—\$4.3 billion. The Budget shifts certain expenditures in the 2022-23 and 2023-24 fiscal years from the General Fund to other funds. These include (1) shifting various California State University (CSU) capital outlay projects to CSU issued debt with the state providing support for the underlying debt service, (2) reverting certain bonds to cash projects from the 2022 Budget Act back to bonds, and (3) shifting certain Zero Emission Vehicle commitments to the Greenhouse Gas Reduction Fund.
 - **Trigger Reductions**—\$3.9 billion. The Budget reduces funding for certain items in the 2020-21 through 2023-24 fiscal years and places them in a "trigger" that would restore the reductions at the 2024 Governor's Budget if it is determined that sufficient funds will be available to cover certain commitments. These items are primarily in the areas of Climate and Transportation (\$3.1 billion), Housing (\$600 million), Parks (\$106 million) and Workforce Training (\$55 million).
 - **Limited Revenue Generation and Borrowing**—\$1.2 billion. The Budget augments General Fund resources in the 2023-24 fiscal year. The majority of the funds in this category are derived from loans from special funds and from the renewal of the Managed Care Organization Tax.

Proposition 98

The education budget reflects an ongoing commitment to funding. The revised estimates of General Fund revenues modestly reduce the Proposition 98 Guarantee. Proposition 98 funding for K-12 schools and community colleges for 2023-24 is \$108.8 billion. This represents a decrease of approximately \$1.5 billion relative to the 2022 Budget Act.

The Guarantee continues to be in a Test 1 for all years 2021-22 through 2023-24. This means that the funding level of the Guarantee is equal to roughly 38 percent of General Fund revenues, plus local property tax revenues.

Community College Funding

The budget includes a continued focus on the CCC multi-year roadmap and a focus on enrollment. The proposed budget includes \$13.5 billion in All Funds and \$8.9 billion in Total State Funds. Of note, the Governor's budget includes the following proposals related to flexibility and dual enrollment.

1. PROVIDING FLEXIBILITY FOR DISTRICTS MEETING CCC ROADMAP GOALS

- a. To support a continued focus toward the goals of the multi-year roadmap, the Administration intends to introduce a mechanism as part of the May Revision to provide community college districts that are making progress toward the CCC roadmap goals with additional categorical program spending flexibilities and the ability to consolidate reporting requirements across specified and to be determined categorical programs, provided the goals of the categorical programs and overall progress toward the roadmap goals continue to be met. Under the proposal, districts making progress would have the opportunity to submit a streamlined report for the specified programs, as well as spend funds more flexibly across the programs.

2. PROVIDING SERVICE-LEARNING OPPORTUNITIES THROUGH DUAL ENROLLMENT

- a. In furtherance of the CCC roadmap and compacts with the UC and CSU, the Administration requests community colleges establish dual enrollment agreements with all applicable local educational agencies within their community college districts' service area, if they have not done so already. Further, the Administration requests that all community colleges develop and offer a one-unit service-learning course that all high school students would have the ability to access through dual enrollment opportunities. These service-learning opportunities would serve to encourage and enable high school students to volunteer in their local communities and to participate in civic engagement.

Labor and Workforce Development

The Labor Agency budget has been the place for many apprenticeships related investments in recent years. The proposed budget includes some adjustments to key areas in apprenticeship and workforce development. Below is a brief overview of some of the changes:

- Apprenticeship Innovation Fund—The 2022 Budget Act committed \$175 million General Fund over three years (\$55 million in 2022-23 and \$60 million in each 2023-24 and 2024-25) at the Department of Industrial Relations to invest in and expand non-traditional apprenticeships. The Budget proposes to withdraw \$40 million (\$20 million in each 2023-24 and 2024-25)—reducing the total three-year investment to \$135 million.

If there is sufficient General Fund in January 2024, this reduction will be restored. See the Introduction Chapter for further information on this trigger.

- Women in Construction Unit—The 2022 Budget Act committed \$15 million General Fund ongoing at the Department of Industrial Relations to promote and support women and non-binary individuals in skilled trade careers. The Budget proposes to pause this funding in 2023-24 and 2024-25—and resume funding of \$15 million General Fund ongoing in 2025-26. If there is sufficient General Fund in January 2024, this pause will be withdrawn. See the Introduction Chapter for further information on this trigger.
- Emergency Medical Technician Training—The 2022 Budget Act committed \$60 million General Fund over three years (\$20 million in each 2022-23, 2023-24, and 2024-25) at the Employment Development Department to provide targeted emergency medical technician training. The Budget proposes to withdraw \$20 million (\$10 million in each 2023-24 and 2024-25)—reducing the total three-year investment to \$40 million. If there is sufficient General Fund in January 2024, this reduction will be restored. See the Introduction Chapter for further information on this trigger.

Summary

In sum, the Governor's budget reflects an interest in protecting many programs and investments from recent years by seeking to delay implementation or adjust fund sources rather than cut programs entirely. The Legislature will begin to review the Governor's budget proposal in the coming weeks as they work toward the deadline of June 15, 2023 to adopt the Budget.