



2022-23 Governor's Budget Proposal Summary

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Governor Newsom released his \$300.7 billion 2022-23 May Revision budget proposal today, which includes a total of \$227.4 billion General Fund. The budget includes a staggering surplus of \$97.5 billion, which is reflected in significant one-time proposals included throughout the May Revision. Major priorities integrated into the budget include: addressing pension obligations, lowering costs for Californians through refunds and assistance, rebuilding infrastructure, paying down debt, housing and the climate.

Historic reserves include: \$23.3 billion in the Proposition 2 Stabilization Account (also known as the Rainy Day Fund); \$9.5 billion in the Public School System Stabilization Account (PSSSA); \$900 million in the Safety Net Reserve; and \$3.4 billion in the state's operating reserve. The total balance of \$7.3 billion to the PSSSA in 2021-22 does trigger the existing statutory cap of 10 percent on school district reserves.

Revenue

California's largest tax sources have grown significantly. Personal income tax revenues were over \$23 billion higher than projected due to 2021 tax receipts, which will be factored into estimates for 2022 and 2023. Sales tax revenues have increased by close to \$3.7 billion and corporation tax revenues are up by \$28.1 billion. It is estimated that these three sources of revenue will increase from a total of \$180.5 billion in 2020-21 to \$232.11 billion in 2025-26.

The State Appropriations Limit for 2022-23 is estimated to be \$135.6 billion, reflecting increased growth of 7.9 percent over the prior year's limit, which is \$4.3 billion higher than the January estimate. The May Revision does not trigger the State Appropriations Limit, which has been mitigated from increased capital outlay and taxpayer rebates.

The May Revision additionally includes proposals to:

- Index the \$1,000 Young Child Tax Credit to inflation, which has been estimated to include a 2022-23 loss of \$14 million in the May Revision. This is also proposed to be allowed to be claimed by households with zero income, with an estimated loss of \$24 million in 2022-23;
- Create a \$1,000 credit for young adults that have come through the foster care system at a cost of \$20 million ongoing;
- Create tax payment flexibility for low- and moderate-income households. Revenue estimates on this loss are not yet available.

Economy

Inflation is impacting both the federal and California economies. As a result, the Federal Reserve increased interest rates by 0.25 percent in March, and an additional 0.50 percent earlier this month. It is also likely that additional interest rate hikes may continue throughout the rest of this year. This interest rate growth was not reflected in the initial January budget but has been integrated into the May Revision, which assumes a more reserved monetary policy with slower economic growth moving forward.

The May Revision does not anticipate additional ongoing costs from the pandemic on top of what has already been created, but has included the fiscal and political implications of the conflict in Ukraine, which is estimated to have a moderate impact on economic growth through increased global food and energy prices as well as hindrances in supply chain systems.

California saw 7.8 percent growth in annual real GDP in 2021, the fastest rate since 1984. It is expected that the California economy will continue to grow, but at slightly slower rates than had been previously projected. California's job growth was strong in 2021 but has seen a slower recovery for the state's labor force, which may be a function of continued pandemic-related issues due to sickness, fear of COVID-19, child care issues and low migration inflows. Despite these issues, more people are expected to enter into the overall labor force. The increased levels of inflation, coupled with a constricted labor market, are expected to continue to increase wage growth to higher levels. The average wage increase for 2021 was 8.6 percent.

Economic Relief

Due to inflation exceeding expectations in 2021-22, an accelerated increase is expected to trigger a rise in the state's minimum wage beginning on January 1, 2023, increasing to \$15.50 per hour for all employers. To address rising gas prices, a one-time refund of \$400 would also be provided to each eligible owner of a registered vehicle, which would be capped at two vehicles per owner for a total of \$800. This total excludes fleets and corporate-owned vehicles, as well as vehicles over a certain value. The estimated return to taxpayers would be approximately \$11.5 billion. A total of \$750 million in incentive grants is proposed to be provided to transit and rail agencies to provide free transit for all Californians for three months. A pause in the sales tax for diesel fuel is proposed to provide relief to the commercial sector, which will reduce revenues by \$327 million in 2022-23 and \$112 million in 2023-24.

To provide emergency rental assistance throughout the state, the May Revision includes \$2.7 billion one-time General Fund which will take place through state and local programs created during the pandemic. To provide utility support, \$1.2 billion is proposed to pay outstanding utility costs to Californians due to increased utility rates. An additional \$200 million is proposed to assist low-income households manage their residential water utility costs.

To assist families with young children, \$136 million one-time federal funds are included in the May Revision for the California Department of Social Services, as well as \$21.3 million one-time General Fund for the California Department of Education to waive family fees for state-subsidized preschool and childcare and development services from July 1, 2022 through June 30, 2023.

Education

Total TK-12 funding includes \$128.3 billion, reflecting \$78.4 billion General Fund and \$49.9 billion in other funds. Remaining in Test 1 for the past two fiscal years, while additionally including the current fiscal year, total Proposition 98 revenues integrate rebenchmarking as a result of integrating universal Transitional Kindergarten into the overall formula. The total amount of Proposition 98 funds include approximately 38.3 percent of General Fund revenues, totaling \$96.1 billion in 2020-21, \$110.2 billion in 2021-22, and \$110.3 billion in 2022-23.

Local Control Funding Formula

The May Revision includes a 2022-23 cost-of-living-adjustment (COLA) of 6.56 percent, which increased from the 5.33 percent included in the initial January proposal, reflecting the largest COLA since the inception of the Local Control Funding Formula (LCFF). The total additional amount of funding to the LCFF provided through this COLA

is \$1.1 billion. Additionally, \$2.1 billion in ongoing Proposition 98 General Fund is provided to increase LCFF discretionary base funding to address increasing costs in pension obligations, costs for goods and services, as well as other ongoing increases in local district budget costs. Further, \$101.2 million ongoing Proposition 98 General Fund is added for county offices of education to mitigate the same cost pressures. To further address local educational agencies (LEAs) with pension contributions, maintaining existing staffing levels, addressing student learning challenges, as well as to support student and staff mental health and wellness, \$8 billion in one-time Proposition 98 General Fund is provided in discretionary funds, which will be allocated on a per-pupil basis.

The May revision recognizes the impact the COVID-19 pandemic has had on school attendance and proposes to allow all classroom-based LEAs to be funded at a higher level than their current year average daily attendance (ADA), or their current year enrollment adjusted for pre-COVID-19 absence rates in the 2020-22 fiscal year. The total ongoing costs to provide this ADA stabilization are approximately \$3.3 billion.

Community Schools

Due to a high number of applications for the initial round of funding provided for Community Schools, coupled with an expectation of additional requests for funding, an additional \$1.5 billion in one-time Proposition 98 General Fund is provided to expand the number of Community School grants to LEAs that opt to apply on behalf of high-need schools.

Nutrition

The May Revision includes an additional \$611.8 million ongoing Proposition 98 General Fund to maintain the existing meal reimbursement rates starting in 2022-23. Should additional federal reimbursement rates be extended, any unused state funding for meal reimbursements would shift to funding for kitchen infrastructure grants.

Expanded Learning Opportunities Program

The Governor's January Budget increased the implementation of the Expanded Learning Opportunities Program (ELOP) by an additional \$3.4 billion ongoing Proposition 98 General Fund, providing a total of \$4.4 billion to speed up the implementation of this program which will implement an expanded day, full-year instruction and enrichment for all elementary school students. The ELOP will provide focus on LEAs with the highest concentrations of low-income students, English language learners and students in foster care. The May Revision increases this amount by \$403 million ongoing Proposition 98 General Fund, which provides full funding implementation funding totaling \$2,500 for each student. Beginning in 2023-24, LEAs will be required to offer this program to all low-income students, English language learners, and foster youth, while LEAs with the highest concentrations of these students will be required to offer this program to all elementary students.

Community Engagement Initiative

An additional \$100 million one-time Proposition 98 General Fund is provided to the existing Community Engagement Initiative to expand the number of LEAs that can participate in this program, which provides support for LEAs to be able to communicate and collaborate with their local communities during the creation of their Local Control and Accountability Plans (LCAP).

Pre-Kindergarten/Early Childhood Education

The May Revision increased the initial amount proposed in the Governor's January Budget to \$614 million General Fund in 2022-23 to reflect the costs to expand transitional kindergarten eligibility for children turning

five-years-old between September 2 and December 2, to those turning five-years-old between September 2 and February 2.

A total of \$10.8 million one-time Proposition 98 General Fund and \$10.8 million one-time General Fund is provided to waive the amount families must pay to share the costs for children participating in the State Preschool Program in 2022-23. State Preschool contractors will also be able to receive full funding in 2022-23 for contracts, regardless of student attendance. The adjustment factors for students with disabilities and dual language learners in the State Preschool Program have additionally been adjusted to include \$201.8 million Proposition 98 General Fund and \$140.6 million General Fund.

Flexibility is proposed in the May Revision to the pipeline of qualified transitional kindergarten teachers, allowing teachers with existing preschool teaching permits who hold a bachelor's degree that meet basic skill requirements, and who are enrolled in coursework leading to be assigned as the teacher of record in a credential program, to be allowed to teach transitional kindergarten.

Teacher Support/Professional Development

To increase the teaching and counselor workforce, the May Revision provides \$500 million one-time Proposition 98 General Fund to increase the residency slots for both teachers and school counselors, while also including trailer bill language that would allow school counselors, social workers, and psychologist candidates to be eligible for the Golden State Teacher Grant Program. To support educators that provide Science, Technology, Engineering, and Mathematics (STEM), \$85 million one-time Proposition 98 General Fund is provided to create resources and professional learning to implement the Next Generation Science Standards, the California Math Framework, the California Computer Science Standards, and the math and the science areas of the California Preschool Learning Foundations. Other alignment for STEM educator support initiatives will also be supported through the use of these funds to create a cohesive statewide continuum of instructional support. Further, \$300 million in one-time Proposition 98 General Fund is provided to increase resources for LEAs for professional learning through Educator Effectiveness Block Grant, prioritizing STEM educator support.

Educator Workforce Investment Grant Program

The May Revision includes \$15 million in one-time General Fund for three years to continue the Educator Workforce Investment Grant (EWIG) program in computer science, as well as \$15 million one-time Proposition 98 General Fund, over three years to continue the EWIG programs in special education and support for English learners.

Facilities

The May Revision proposes a total \$3.9 billion from the State General Fund (GF) for school facilities construction and modernization. This represents an increase of \$1.8 billion above the Administration's January proposal.

The May Revision also proposes \$1.8 billion one-time Proposition 98 to LEAs for deferred maintenance.

Other Adjustments

- Increase of \$80 million ongoing Proposition 98 General Fund for the Classified School Employee Summer Assistance Program, which would provide supplemental pay for classified staff during intersessional months when not employed.

- Increase of \$63 million one-time Proposition 98 General Fund, for a total of \$1 billion one-time Proposition 98 General Fund for the Expanded Learning Opportunities Program infrastructure, focusing on integrating arts and music programming into student enrichment options.
- Increase of \$62.1 million Proposition 98 General Fund for specific categorical programs in 2022-23, reflecting the increased COLA.
- Increase of \$20 million one-time Proposition 98 General Fund for the support of a K-12 Teacher Residency Program Technical Assistance Center.
- Increase of \$15 million one-time Proposition 98 General Fund over three years to support 6,000 teachers completing their coursework to receive a supplementary state certification in reading and literacy.
- \$1.7 million one-time Proposition 98 General Fund for the Tulare County Office of Education for the support of educator recruitment work within the Center on Teaching Careers.
- Increase of \$2.5 million General Fund for the study and preliminary plans phase of a project to replace all outdoor sports fields, as well as a stand-alone practice soccer field at the Riverside School for the Deaf.

Higher Education

The May Revision maintains the Administration's commitment to the recommendations created by the Governor's Council for Post-Secondary Education, which includes a 70 percent postsecondary degree and certificate attainment goal for working-aged Californians by 2030, including all three segments of public higher education. This includes recognizing the commitment towards the compacts created with each system that recognize a five-percent increase in base General Fund resources over five years for the University and California (UC) and California State University (CSU). Priorities and commitments included in these compacts include:

- Expanding access to the UC and CSU through increasing undergraduate enrollment of California residents by more than 22,000 full-time equivalent (FTE) students between 2023-24 and 2026-27, while ensuring that California Community College (CCC) transfer students are included as a large share of this enrollment;
- Taking measurable steps toward eliminating equity gaps in graduation rates between Pell Grant recipients, underrepresented students, disabled students, and their peers;
- Significantly decreasing non-tuition costs for students or increasing the availability of lower-cost options for instructional materials, housing, food, and transportation;
- Move in a measurable way toward the aspirational goal of offering every UC undergraduate a pathway toward a debt-free education by 2029-30;
- Increase intersegmental collaboration to benefit students, which should include support for the implementation of the Cradle-to Career Data System, the adoption of an intersegmental common learning management system, a dashboard to identify granular equity data trends, integrated admissions platform for all segments, as well as an improved data sharing to help students transfer;
- Take targeted steps toward increasing the number of students ready to enter careers in STEM, education and early education, primary, secondary and postsecondary education, technology, healthcare, climate action, and social work;
- Provide students who would like to work online with access to high-quality online courses.

University of California

The May Revision proposes a \$500 million one-time General Fund to create an institute for Immunology and Immunotherapy, which represents \$300 million in 2022-23 and \$200 million planned in 2023-24. Other adjustments include:

- Increase of \$13 million ongoing General Fund for existing operations of the UC Labor Centers as well as Occupational Safety and Health Programs, as well as to invest in similar new programs throughout the UC system;

- Increase of \$1.5 million General Fund to integrate member institutions of the association of Independent California Colleges and Universities onto the ASSIST platform. Of these funds, \$650,000 is ongoing;
- Increase of \$5 million one-time General Fund to support of the Center for Responsible, Decentralized intelligence at UC Berkeley;
- Increase of \$5 million one-time General Fund to support the Ralph J. Bunche Center for African-American Studies at UCLA;
- Shift \$2 million one-time General Fund to support UC Fire Advisors, included under the California Department of Forestry and Fire Protection;
- Increase of \$2.1 million General Fund to maintain funding for annual graduate medical education at \$40 million.

California State University

Multiple projects in capital infrastructure are included in the May Revision, including:

- \$80 million one-time General Fund for the expansion of San Diego State University Brawley Center located in Imperial Valley;
- \$67.5 million toward the construction of the CSU Fullerton Engineering and Computer Science Innovation Hub;
- Increase of \$25 million one-time General Fund to support both equipment and facilities for CSU University Farms;
- Increase of \$1.5 million General Fund to support the First Sr. Foster Youth Cohorts at both the CSU East Bay and CSU Northridge.

California Community Colleges

The May Revision includes a \$250 million ongoing Proposition 98 General Fund for an increase to the Student Centered Funding Formula's (SCFF) rates for the base, supplemental, and success allocations. An additional \$125 million ongoing Proposition 98 General Fund is also proposed to augment the SCFF's basic allocation within the base allocation. Additional changes to the SCFF include:

- Increase of \$750 million one-time Proposition 98 General fund to districts for discretionary block grants regarding pandemic-related issues, as well as to reduce long-term obligations;
- Increase of \$10 million ongoing Proposition 98 General Fund to expand foster youth support services through the NextUp program;
- Increase of \$25 million ongoing Proposition 98 General Fund for an approximate five-percent increase to the Student Equity and Achievement Program;

The May Revision includes \$2.6 million ongoing non-Proposition 98 General Fund for the Chancellor's Office to support shifting 10 positions proposed for the 2023-24 budget to the 2022-23 budget, as well as seven additional positions to support the implementation of the Cradle-to-Career data System, to assist colleges with affordable student housing, as well as to increase capacity regarding the increase in contracts and reporting requirements.

Additional adjustments include:

- Increase of \$45 million one-time Proposition 98 General Fund for the implementation of the California Healthy School Meals Pathway Program;
- Increase of \$16.9 million ongoing Proposition 98 General Fund to align the apprenticeship program related and supplemental instruction rate with the SCFF credit rate;
- Increase of \$83.5 million ongoing Proposition 98 General Fund reflecting the increase in the COLA from 5.33 percent to 6.56 percent;

- Increase of \$1.1 billion one-time Proposition 98 General Fund for deferred maintenance and energy efficiency projects;
- Increase of \$113.2 million ongoing Proposition 98 General Fund to offset local property tax revenues;
- General Obligation bond funding of \$403 million one-time to fund for the construction of 19 projects, which reflects an installment of \$2 billion available to CCC's under Proposition 51;
- Increase of \$10 million ongoing Proposition 98 General Fund for the creation of the Classified Employee Summer Assistance Program;
- Increase of \$500,000 ongoing Proposition 98 General Fund to backfill a decrease in federal matching funds to the Foster and Kinship Care Education programs.

Health Care and Health Care Affordability

The May Revision includes \$933 million one-time for the retention of hospital workers, workers in skilled nursing facilities, and psychiatric hospitals to reflect the ongoing impacts of the pandemic. It also proposes to re-instate the state supported healthcare premium subsidy program that was administered by Covered California by including \$304 million General Fund ongoing funds. Total funding for health and human services as provided in the May Revision in 2022-23 is \$227.6 billion (\$67.4 billion General Fund and \$160.2 billion in other funds).

A total of \$57 million in General Fund is provided to both maintain and improve the availability of safe and accessible reproductive health care, which build on the \$68 million included in the Administration's January Budget proposal. Additional support includes:

- Funding of \$40 million General Fund one-time, over six years, for the Department of Health Care Access and Information to provide grants to reproductive health care providers to offset the costs for providing care to low- and moderate-income women who do not have health care coverage for abortion care services;
- Funding of \$15 million General fund one-time for the Department of Public Health (DPH) to provide grants to community-based reproductive health, rights, and justice organizations to provide medically accurate and culturally competent outreach and education regarding both sexual health and reproductive health issues;
- Funding of \$1 million General Fund one-time for the DPH to create and maintain a website that provides accurate and updated information on the right to abortion care under state law, information about reproductive health care providers, as well as options for coverage for reproductive services, which include state-funded coverage and programs;
- Funding of \$1 million General Fund one-time for the DPH to conduct research on the unmet needs for access to reproductive health services.

A total of \$304 million is proposed to reinstitute California's premium subsidy program that was in effect in both 2020 and 2021, which included premium subsidies for middle income Californians who did not qualify for subsidies under the Affordable Care Act, should federal action not be taken to extend the American Rescue Plan Act which expires at the end of the year.

Data indicates close to one in four diabetics cannot afford their insulin, which disproportionately impacts communities of color as they are much more likely to have severe diabetes-related complications. A total of \$100 million General Fund one-time for the CalRX biosimilar Insulin Initiative is included to establish partnerships for increased generic manufacturing of essential medicines. The May Revision also includes \$50 million for a two-year grant program that will provide technical assistance to implement a statewide data exchange framework.

Youth suicide rates have increased throughout the pandemic, additionally impacting the stress, trauma, and social isolation to the stressed mental health crisis faced by children and youth, particularly for California's youth of color, low-income communities, LGBTQ+ youth, and other vulnerable groups. A recent survey indicated that 14 percent of California's 7th graders and 15 percent of 9th and 11th graders have considered suicide. To address these alarming trends, \$290 million General Fund one-time investment are provided to implement a multi-pronged approach to address the youth mental health crisis, which will establish a center for researching evaluating, and applying innovative technologies to improve youth mental health. Additional funds to prevent youth suicide include:

- Funding \$40 million General Fund for the development and implementation of a data-driven targeted community-based youth suicide prevention program, focusing on communities of color and foster youth;
- Funding \$50 million for grants to pilot school and community-based crisis response and supports that follow a youth suicide or youth suicide attempt, while piloting a new approach to designate youth suicide attempts as a reportable public health event, triggering screening and resource connections at the local level;

To support wellness and build the resilience of children, youth, and parents, the following funds are proposed:

- Funding \$85 million over two years for wellness and mindfulness grant programs in schools and communities as well as the expansion of parent support and training programs;
- Funding \$15 million to create and distribute a video series for parents to build knowledge, tools, and capacity to support their children's behavioral health;
- Funding \$25 million for the identification and support of early career development for 2,500 talented and culturally diverse high school students interested in careers in mental health;
- Funding \$75 million for next generation digital supports for the remote and metaverse-based mental health assessment and intervention.

Department of Social Services

The May Revision includes \$42.4 billion for the Department of Social Services to serve, protect needy and vulnerable children and adults in order help and preserve families.

Children's Programs

Total funding for children's programs for 2022-23 are in excess of \$9.2 billion, reflecting federal Realignment funds. The May revision includes \$988.8 million General Fund in 2022-23 for services to children and families in programs offered through Child Welfare Services, which include family support and maltreatment prevention services, child protective services, foster care services, and adoptions.

Immigration Services

The Department of Social Services (DSS) includes the following May Revision adjustments:

- Funding \$175 million one-time General Fund for Rapid Response efforts to create additional support for migrant arrivals at the Southern California border as well as funding for other emergent issues;
- Funding \$2.5 million General Fund one-time in both 2022-23 and 2023-24 for the California Immigrant Justice Fellowship.

Child Care

The May Revision includes \$6.3 billion for child care programs, which include the multi-year commitment toward rate increases and supplemental funding to providers, while expanding care access by 200,000 slots by 2025-26. An additional \$270 million is proposed for 36,000 additional subsidized slots as well as \$413 million to support

a full year of rate increases while the state works with partners and stakeholders regarding a reimbursement rate structure. Additional adjustments include:

- Funding \$136 million in federal funds for the DSS to extend family fee waivers for state-subsidized preschool and childcare and development services from July 1, 2022 to June 30, 2023;
- Funding \$114 million to reimburse voucher-based child care providers and preschool providers for authorized hours of care from July 1, 2022 to June 30, 2023;
- Funding \$200.5 million in 2022-23 for minor renovation and repair in child care deserts and low-income communities;
- Funding \$20 million General Fund to assist alternative payment programs to develop capacity to serve additional slots;
- Funding \$25 million one-time general Fund for the prevention, intervention, and services for youth that have been victims of sex trafficking;
- Funding \$12 million one-time General Fund over three years for the Promise Neighborhoods in Chula Vista, Corning, Hayward, and Mission.

Pensions

Total state contributions to the California Public Employees' Retirement System (CalPERS) have decreased by \$215.6 billion in 2022-23 as a result of CalPERS' adjustment to the state's contribution rates, changes in experience and actuarial assumptions, as the reduction in the discount rate from seven percent to 6.80 percent. An additional \$2.9 billion in one-time Proposition 2 debt repayment funding is provided in 2022-23 to reduce the unfunded obligations of CalPERS state plans.

The May Revision includes \$6 million General Fund in 2022-23 reflecting increased state contributions to the California State Teachers' Retirement System (CalSTRS) due to an increase in overall K-14 educator compensation.