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The 2023-24 Budget: Overview of May Revision K-12 Education Proposals



LEGISLATIVE ANALYST'S OFFICE

Changes to Proposition 98 Guarantee Since January

Estimates of the Minimum Guarantee Revised Down \$2.1 Billion Across the Budget Period

- Reductions in the guarantee reflect lower General Fund revenue estimates in 2022-23 and 2023-24.
- Higher property tax estimates offset some of the General Fund decrease.
- Most of the reduction in the guarantee is attributable to 2023-24.

Changes in the Proposition 98 Guarantee

(In Millions)

	2021-22	2022-23	2023-24	Three-Year Totals
Governor's Budget				
General Fund	\$83,630	\$79,103	\$79,613	\$242,345
Local property tax	26,785	27,889	29,204	83,878
Totals	\$110,415	\$106,991	\$108,816	\$326,223
May Revision				
General Fund	\$83,754	\$78,115	\$77,435	\$239,304
Local property tax	26,800	28,656	29,404	84,861
Totals	\$110,554	\$106,771	\$106,839	\$324,165
Change				
General Fund	\$124	-\$987	-\$2,178	-\$3,041
Local property tax	15	767	201	983
Totals	\$139	-\$220	-\$1,977	-\$2,058



Update on Proposition 98 Reserve Deposits

Estimates of Required Reserve Deposits Are Up \$2.2 Billion Over the Period

- One factor determining the size of required deposits is the proportion of General Fund revenues attributable to capital gains. Required deposits tend to increase when this proportion is higher.
- Although the administration reduces its estimates of overall General Fund revenue, its estimates of capital gains are above the January estimates and therefore account for a larger share of overall revenue.
- The largest increase is attributable to 2021-22 .

Balance in Reserve Would Reach 10 Percent of the Minimum Guarantee by 2023-24

- The State Constitution provides that deposits are required only when the balance is below 10 percent of the guarantee.
- The state would not make further deposits unless the guarantee were to increase or withdrawals were made in the future.

Cap on Local Reserves for Medium and Large School Districts Would Remain Operative

Changes in the Proposition 98 Reserve

(In Millions)

	Beginning Balance (Through 2020-21)	Estimated Deposits			Ending Balance (Through 2023-24)
		2021-22	2022-23	2023-24	
Governor's budget	\$3,302	\$3,710	\$1,096	\$365	\$8,473
Changes in May	—	1,129	699	382	2,211
May Revision Totals	\$3,302	\$4,840	\$1,795	\$748	\$10,684



Assessing Estimates of the Minimum Guarantee

Administration's General Fund Revenue Estimates Have More Downside Than Upside

- The national economy is sending mixed signals—strong wage growth and low unemployment still point to strength, but slumps in certain key sectors (such as housing, manufacturing, and trade) and regional bank failures point to weakness.
- State revenues are already in a downturn—personal income tax withholding is down 5 percent since the start of the year and core taxable sales have declined for two consecutive quarters.
- Our revenue estimates are roughly \$10 billion below the May Revision levels.

Minimum Guarantee More Likely to Decrease Than Increase

- The guarantee would decrease about 40 cents for each dollar of lower General Fund revenue.
- A \$10 billion revenue reduction would reduce the guarantee roughly \$4 billion.

Administration's Estimates of Revenue Attributable to Capital Gains Seem Too High

- We have significant differences from the administration in our estimates of the General Fund revenue attributable to capital gains. Specifically, our estimates are nearly \$12 billion lower over the period.
- If capital gains account for a smaller proportion of General Fund revenue, but overall revenue levels are unaffected:
 - The Proposition 98 guarantee would not change.
 - Required deposits into the Proposition 98 Reserve would decrease.



Overview of K-12 Spending Package

The May Revision Reduces K-12 Spending by \$4 Billion Over the Three-Year Period

- Revised spending levels align with the lower estimates of the guarantee.
- Includes various adjustments related to ongoing spending, one-time reductions, and new one-time activities.

Reduces Ongoing Spending by \$969 Million

- The reduction mainly reflects the scoring of additional savings related to declines in student attendance over the past few years. Two factors partially offset these savings:
 - An increase in the cost-of-living adjustment (COLA) from 8.13 percent to 8.22 percent.
 - Higher costs related to implementing universal school meals.
- The May Revision proposes a few new ongoing augmentations, including an increase of \$80 million for schools operated by county offices of education.

Reduces Previously Approved One-Time Grants by \$3.2 Billion

- The Learning Recovery Emergency Block Grant would be reduced by \$2.5 billion (from \$7.9 billion as approved last June to \$5.4 billion).
- The Arts, Music, and Instructional Materials Discretionary Block Grant would be reduced by \$607 million (in addition to the \$1.2 billion reduction proposed in January). Overall funding would drop to about half of the original \$3.6 billion.

Proposes Various Increases in One-Time Spending Totaling \$138 Million



K-12 Proposition 98 Spending Proposals

(In Millions)

	January	May	Difference
Ongoing			
LCFF growth and COLA ^a	\$4,117	\$3,428	-\$689
COLA for select categorical programs ^a	669	616	-53
Transitional kindergarten expansion ^b	856	349	-506
Equity multiplier	300	300	—
Universal school meals	-37	154	191
COE alternative schools funding increase	—	80	80
State Preschool for students with disabilities	64	64	—
Access to opioid overdose reversal medication	4	4	—
K-12 High Speed Network	4	4	—
California College Guidance Initiative	4	4	—
After school programs in rural schools	—	3	3
California School Information Services	—	2	2
Equity lead in statewide system of support	—	2	2
Antibias education and training	—	1	1
Preschool assessment tool	1	1	—
Fiscal Crisis and Management Assistance Team	1	1	—
LCAP query tool and electronic template	—	0.1	0.1
Subtotals	(\$5,982)	(\$5,013)	(-\$969)
One-Time Reductions			
Learning Recovery Emergency Block Grant	—	-\$2,553	—
Arts, Music, and Instructional Materials Discretionary Block Grant	-\$1,174	-1,780	-\$607
CCEE adjustment for unspent prior year funds	-4	-4	—
Subtotals	(-\$1,178)	(-\$4,338)	(-\$3,160)
One-Time Augmentations			
Literacy coaches and reading specialists	\$250	\$250	—
Current year school meals cost	—	110	\$110
Arts and cultural enrichment	100	100	—
Charter School Facility Grant Program	30	30	—
Bilingual Teacher Professional Development Program	—	20	20
Restorative justice grants	—	7	7
Testing consortium membership fee	1	1	—
Review of tools to identify early reading difficulties	—	1	1
Update to digital learning and standards integration guidance	0.1	0.1	—
Subtotals	(\$38)	(\$519)	(\$138)
Total K-12 Education	\$5,184	\$1,194	-\$3,990

^a The Governor's budget included a 8.13 percent COLA. The May Revision includes a 8.22 percent COLA.

^b Reflects additional LCFF costs associated with serving more students in transitional kindergarten, including costs of lower transitional kindergarten staffing ratios.

LCFF = Local Control Funding Formula; COLA = cost-of-living adjustment; and CCEE = California Collaborative for Educational Excellence.



Assessment

Budget Situation Remains Manageable but Has Clearly Weakened Over the Past Year

- Although the guarantee remains high by historical standards, it is down nearly \$7 billion across the three-year budget period compared with the levels in June 2022.
- The multiyear picture also is weaker—the June 2022 budget plan anticipated the guarantee would grow at an average annual rate of 4.4 percent for the three years following the budget year. The comparable annual increase under the May Revision is 2.9 percent.
- This May Revision represents a significant shift from the past two years, in which school funding experienced record increases.

May Revision Solutions Are Moving in the Wrong Direction

- The May Revision retains the new programs proposed in January and adds several new initiatives. These commitments would make existing programs more difficult to sustain, especially if revenues are lower than the May Revision anticipates.
- The Governor proposes larger reductions to previously approved programs. The most notable reduction—involving the Learning Recovery Emergency Block Grant—would apply to funds districts have received already.
- Most concerning, the May Revision relies on nearly \$2.8 billion in one-time funds to cover the 8.22 percent COLA for the Local Control Funding Formula (LCFF). This approach creates an ongoing deficit because the costs of the COLA continue but the one-time funding does not.



Recommend Alternative Starting Point

Recommend Rejecting May Revision Spending Framework and Starting With Baseline Budget

- Baseline budget rejects all of the major spending proposals included in the January budget and May Revision.
- Funds smaller proposals that are directly related to implementing previously approved programs or increasing workload.
- Starts without reductions to grants and programs approved in previous budgets.
- Avoids creating deficits by aligning the COLA rate with available ongoing funds.

Implications of Adopting Baseline Budget

- In 2023-24, the state could fund a COLA of 5.1 percent instead of 8.22 percent. For the LCFF, this would represent a 19 percent increase over the past two years.
- Across 2021-22 and 2022-23, K-14 spending would exceed the guarantee by \$1.5 billion if the state did not make any changes to existing programs.
- If the Legislature were to reduce spending to the guarantee, it would need only \$1.5 billion in solutions—instead of the \$5.1 billion contained in the May Revision. In addition, we think the Legislature has better options than reducing the block grants. For example:
 - The Legislature could reduce K-14 grants that have not yet been allocated to schools and are not scheduled to be allocated for another few years (such as grants for community schools or electric school buses).
 - The Legislature could achieve one-time savings by requiring districts to use their unspent funds from the Expanded Learning Opportunities Program before receiving additional state funds for the program in 2023-24.



Recommend Alternative Starting Point

(Continued)

Baseline Budget Would Offer Several Advantages

- Minimizes the need for reductions to previously allocated funding that could disrupt local planning and district initiatives already in progress.
- Reduces the risk to ongoing programs in the event revenue is lower than anticipated and makes any future shortfalls easier to address.
- Preserves legislative flexibility by making more funding available in the future. Specifically, it would allow the Legislature to use future funding increases to fund COLA or other priorities instead of using those increases to address a deficit created in 2023-24.

The Legislature Could Refine the Baseline Budget to Reflect Its Priorities

- Starting from the baseline budget means the Legislature would not need to navigate all of the individual augmentations, cuts, and fund shifts proposed in the May Revision.
- Instead, the Legislature could focus on the broader budget structure and any modifications to current law necessary to achieve its highest priorities for the coming year.

