

Governor's January Proposal for the 2024-25 Budget: Initial Overview

January 11, 2024

Governor Newsom presented his initial 2024-25 budget proposal yesterday, with less dire projections than had been anticipated. The \$291 billion budget proposal is about 6% smaller than the total 2023-24 budget, and about 8% smaller than the General Fund spending approved in the 2023-24 budget act. The budget deficit as calculated by the Department of Finance (DOF) is estimated at \$37.9 billion for the coming fiscal year; this is about \$30 billion lower than the Legislative Analyst projected last month. Though the offices use different assumptions and have access to different information, Gov. Newsom stressed that over a six year period, the LAO and DOF projections are actually very close.

The budget deficit is particularly large this year thanks to the unprecedented delay of the tax filing deadline last year. This forced lawmakers to finalize a budget for 2023-24 with much less information about state revenues. The state budget has also been affected by the economic downturn with sharp drops in the stock market coming right after surging market growth that led to particularly large budget surpluses.

With state reserves at all-time highs and prior year budget actions that anticipated the downturn and deficit, California is in a fairly strong position for these conditions. The governor's January proposal has measures including cuts, borrowing, funding delays and deferrals, and relies on state and Prop. 98 rainy day funds. For public education – TK-12 and higher education – the budget proposals keeps funding fairly flat compared with the current year, and no dire cuts are proposed.

Below is a summary of the major items in the January budget proposal. In the coming weeks, as the details of policy proposals become available, we will circulate a more detailed report about the governor's budget. As a reminder, the budget process is a months-long one, and the 2024-25 budget will not be finalized until June. In the next few months, legislative budget hearings will occur and the state senate and assembly will develop their own budget proposals. In May, Governor Newsom will revise his proposal in advance of further negotiations with the legislature. With the large deficit, we will also be looking out for possible early budget actions.

Summary of Major Proposals in the Governor's Budget Proposal for 2024-25

Proposition 98: The Prop. 98 minimum funding guarantee is calculated and revised based on the overall state general fund picture. Across three years, the minimum is about \$11.3 billion below the 2023 Budget Act estimates.

- For 2022-23, the minimum is reduced by about \$9 billion to \$98.3 billion and for 2023-24 it is reduced by about \$2.7 billion to \$105.6 billion. Total Prop. 98 funding proposed for 2024-25 is \$109.1 billion. Roughly 11% of Prop.98 funds are allocated to community colleges and the rest goes to TK-12 education.
- The governor's proposal includes a plan to maintain the budgeted funding levels in these years to avoid cuts in Prop. 98 funds to school and community college districts.

- The revised Prop. 98 guarantee amounts also factor in a **re-benching** of the funding formula to account for the expansion of Universal Transitional Kindergarten and the implementation of the Prop. 28 - Arts and Music in Schools - funding.
- For TK-12, **per pupil funding** from Prop 98 remains very steady at \$17,653 (compared with \$17,661 in 2023-24). From all funding sources, the per pupil funding would be \$23,519.
- The governor's proposal makes changes to the **Prop 98 Rainy Day Fund** (PSSSA) deposits and withdrawals. Deposit amounts into the reserve are revised for 2022-23 and 2023-24, and a deposit will also be required in 2024-24. The funds will also be withdrawn so \$3 billion can be used in 2023-24 and \$2.7 billion can be used in 2024-25. This leaves a balance of \$3.8 billion at the end of 2024-25. The school **district reserve cap of 10%** is in effect in 2024-25.

TK-12 Education: No steep cuts are proposed, and the January proposal includes measures that would maintain flat funding levels in 2024-25. A few policy changes are also included.

- The governor's budget estimates the **statutory COLA** at 0.76% for 2024-25; this is lower than the Legislative Analyst estimated it would be, but both estimates are much lower than the past few years have been.
- The proposal applies the COLA to the **LCFF**, the **LCFF Equity Multiplier**, **County Offices**, and the **categorical** programs it typically applies to – including Special Education. When factoring in the 0.76% COLA, and other assumptions, the LCFF funding is projected to decrease by about \$1.4 billion compared with 2023-24, after accounting for the COLA and anticipated changes based on ADA and other formula factors. Total LCFF funding would be about \$78.6 billion. The budget proposal applies Prop. 98 rainy day funds to avoid cuts to ongoing LCFF costs in the current and budget years.
- **School Facility Program** funding for 2024-25 is proposed to be cut by \$500 million, from \$875 million to \$375 million (one-time funds) in one of the few proposed cuts to education. The budget proposal also delays by one year the \$550 million that was expected for the **Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program**. The governor proposes to develop with the legislature a bond proposal to support education facilities, which would be voted on in the November 2024 election.
- **Instructional Continuity Proposals:** Gov. Newsom will propose some policy changes to enable students to make up lost instructional time and allow LEAs to add recovery time to ADA data. This would affect funding tied to ADA and individual student attendance reporting, which is reflected in chronic absenteeism. Districts would also be required to offer access to remote instruction or neighboring schools when there are emergencies of 5 days or longer. The changes would also add options for hybrid or remote learning. Trailer bills will provide more details in the coming weeks.
- **Staffing Crisis:** The budget proposal includes no notable funding increases to address the staffing crisis in education, but there are a few policy changes to **Teacher Preparation** included. The governor will propose allowing a bachelor's degree to satisfy the basic skills requirement for a teaching credential and improving transcript review to certify subject matter competency.
- Funding to support **training for literacy screenings** in Kindergarten through second grade, which begin in 2025-26, is included – \$25 million
- No cuts are proposed to the \$500 million slated for **Zero-emission School Buses** in 2024-25.

- **ERAF** (Educational Revenue Augmentation Fund) revenues have been allocated to all non-basic aid districts, community colleges, and SELPAs since 1992. Charter schools were not established at that time and charter schools currently do not receive any distribution from ERAF. The governor proposes to make charter schools eligible to receive ERAF allocations.
- **Career Education** Gov. Newsom proposes a new teaching credential for Elementary Arts and Music Education, to provide options for CTE teachers to offer arts instruction in elementary classrooms as well as in grades 7 to 12. This relates to the governor's broader focus on Career Education, including the Master Plan for Career Education called for in Executive Order N-11-23 and anticipated to be released in 2024.
- Funding of \$53.7 million of state general fund dollars is proposed to support **State Preschool** reimbursement rate increases that had been funded by federal stimulus funds.

Community Colleges: No steep cuts are proposed and the January proposal includes measures that would maintain relatively flat funding levels in 2024-25. This is similar to the TK-12 budget proposal, which receives the majority of the Prop. 98 funding.

- The governor's budget estimates the **statutory COLA** at 0.76% for 2024-25; this is lower than the Legislative Analyst estimated it would be, but both estimates are much lower than the past few years have been.
- The proposal applies the COLA to the **SCFF** and to the many **categorical** programs that the COLA is typically applied to – including Adult Education. When factoring in the 0.76% COLA, funding for 0.5% enrollment growth, and other technical adjustments, ongoing funding for the community colleges is roughly \$3.6 million lower than in 2023-24.
- Total SCFF funding is estimated at about \$9.46 billion, compared with a revised estimate of \$9.48 billion for 2023-24. The budget proposal applies Prop. 98 rainy day funds to avoid cuts to ongoing costs in the current and budget years.
- No changes are proposed to the upcoming hold harmless / funding floor plan, which is to use a district's 2024-25 apportionment as a floor starting in 2025-26.
- No cuts are proposed to the **Part-time faculty health insurance** program, which will remain at \$200.5 million; funding for Part-time faculty office hours, Part-time faculty compensation, and Full-time faculty hiring also remains unchanged from 2023-24.
- Funding for the **Classified Employee Summer Assistance Program**, just recently expanded to include the community colleges, remains funded at \$10 million per year.
- A new proposal of \$60 million per year, for five years, is proposed to expand nursing programs in the community colleges.

University of California: Gov. Newsom entered into a multi-year compact agreement with the University of California and the California State University, which calls for base funding increases of 5% in 2024-25. The January budget proposal **defers** these funding augmentations for one year, meaning the universities would receive the deferred funds in 2025-26 and the funding would also be incorporated into the base budget going forward.

- The deferral for the University of California includes **\$227.8 million for the 5% base funding** increase plus **\$31 million for resident undergraduate enrollment growth** – funds that are meant to support the loss of revenue associated with replacing 902 nonresident undergraduate students. By deferring and not delaying the funding, Gov. Newsom's proposal would allow the

UC to use interim financing or internal borrowing to cover the one year funding shortfall, and assumes it will be included in the future calculations of base funding levels.

- Funding of about \$2.8 million to maintain \$40 million for graduate medical residency slots and an increase of \$14.5 million for the medical school at UC Merced is also included in the proposal.
- Funding of \$300 million expected for the UCLA Institute for Immunology and Immunotherapy is proposed to be withdrawn after the project plans changed.

Other Higher Education:

- Gov. Newsom's focus on Career Education cross-cuts TK-12 and Higher Education. A Master Plan for Career Education is under development and should be published in 2024.
- The **California Student Housing Revolving Loan Fund Program** is slated to receive \$300 million in one-time funds in the 2024-25 budget and \$200 million one-time funds in the 2023-24 budget. The January proposal suspends the 2024-25 funding and reverts \$194 million of the 2023-24 funds back to the state general fund. The governor's proposal also restates an intent to establish a statewide lease revenue bond program to support affordable student housing projects that were initially funded as the **Higher Education Student Housing Grant Program** in the 2022 budget act.
- There is a proposal to forego \$289 million previously allocated to the **Middle Class Scholarship** financial aid program. Implementation of Cal Grant reforms that were made in previous years are dependent on a determination by the Department of Finance about the availability of state revenue; the governor will wait until the May Revise to do this.