



2024-25 Governor's Budget Proposal Summary

Jennifer Baker, CABE Legislative Advocate

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The Governor released his 2024-25 proposed budget today and stressed the impact revenue volatility is having on California's revenues, which he believes is now normalizing. His \$291.5 billion proposed budget includes a total of \$208.7 billion in the General Fund as well as a \$37.9 billion shortfall. To address the shortfall, \$18.8 billion of resilience solutions are created through withdrawals from reserves, including the Public School System Stabilization Account (PSSSA), as well as borrowing. A total of \$11.9 in solutions are included in belt tightening, which include reductions and fund shifts, and \$7.2 billion is addressed through both delays and deferrals.

Overall priorities include addressing homelessness, mental health support, creating a safer California, increasing career education in California's educational systems, providing greater climate support, and maintaining California's economic dominance.

Economy

California's revenue decline is attributed to both the 2022 stock market decline as well as the recent tax collection delays that yielded less revenues than anticipated. While overall revenues grew tremendously immediately following the recent COVID-19 recession, leading to significant windfalls, "Big Three" General Fund revenues, stemming from personal income taxes (PIT), sales, and corporation taxes, revised downward in 2022. The revision is expected to reflect the normalization of revenue growth and a correction in revenue growth.

While the economy has been plagued by slow job growth and high interest rates, the U.S. real GDP growth had an average of 3.1 percent during the first three quarters of 2023. Inflation began to reduce in 2023 while remaining higher than the Federal Reserve's target of two percent. U.S. GDP is projected to slow to less than one percent annualized growth in the first half of 2024.

The proposed budget projects U.S. headline inflation will continue to moderate while inflation is projected to slow to between two and three percent. As interest rates ease in 2025, most personal income components are projected to revert to historical growth trends of around four percent in 2027.

Risks to the economic forecast included in the Governor's proposed budget include the Federal Reserve maintaining higher target rates for longer than expected, which could include a drag on interest-sensitive spending. High rates could additionally hamper economic activity more than projected. An additional risk includes a scenario where Iran could be drawn into the existing Israel-Hamas conflict, which would impact oil shipping throughout the Persian Gulf, increasing oil prices as well as causing supply chain issues. Additional risks include escalating tensions between China and Taiwan, climate change, the challenges of an aging population, declining migration inflows, lower fertility rates, chronic stock market volatility, high housing and living costs, and potentially worsening income inequality.

While the Department of Finance did not contemplate a recession, should one develop, it would likely be mild, could begin close to the end of 2024 and would be driven by high interest rates. If a mild recession is realized in the second half of 2024, it could create General Fund revenue losses between \$20 to \$30 billion.

Impact of Tax Delay

Approximately two-thirds of General Fund revenues are derived from personal income taxes from high-income earners who make up solely one percent of the State's total tax returns. These 180,000 tax returns made up half of all personal income taxes paid in 2021, which created \$62.9 billion in revenues.

As a result of the delay in filing taxes, once final receipts came in, both PIT and corporation tax receipts totaled \$25.7 billion, which was 22 percent lower than was projected in the 2023 Budget Act. The Governor reflects on this fact and how, if the state had known final tax revenues would have been lower in April of 2023, the Budget Act would have reflected this reduction. Since it was not realized until November, this reduction was incorporated into the 2024-25 budget proposal. It was noted that additional adjustments may need to be incorporated into the May Revision as the ability to prepare the budget projections was truncated, leading to a lack of time to prepare the budget properly.

Reserves

To minimize cuts to services and programs, including education, the proposed budget includes withdrawals from budget reserves, including a total of \$13.1 billion, which contains \$10.4 billion from the Mandatory Budget Stabilization Account (BSA) Balance and Transfer Suspension, \$1.8 billion from the Discretionary BSA Balance, and \$900 million from the Safety Net Reserve. An additional \$5.7 billion from the PSSSA is included, which will revert to Proposition 98. To achieve this, the Governor will need to declare a state of fiscal emergency, which may likely take place in May. Despite these withdrawals, total budget reserves are anticipated to total \$18.4 billion, including \$11.1 billion in the BSA, \$3.9 billion in the PSSSA, and \$3.4 billion in the Special Fund for Economic Uncertainties.

The Governor has expressed his desire to change how the state contributes to budget reserves and lamented the combined impact that Proposition 2 and the State Appropriations Limit (Gann Limit) hinder the ability to put money into reserves. Proposition 2, which was passed in 2014, requires 1.5 percent of General Fund tax revenue, and a small amount of General Fund revenues which stem from capital gains, to be put away to pay down debt. Existing mechanisms set up for the BSA were created with this in mind. The Gann Limit, created by the voters in 1979, caps the amount of revenues from tax revenues that can be appropriated each fiscal year. Unfortunately, Proposition 2 deposits are also considered in the Gann Limit. The Governor is proposing a conversation on ways the state can save more in future economic upswings to better prepare for downswings.

Reductions/Funding Schemes

The proposed budget includes \$8.5 billion in reductions throughout the budget, which include \$500 million for the School Facilities Aid Program and \$494 million for the Student Housing Revolving Loan Fund Program. It also includes \$5.7 billion from borrowing internally and \$5.1 billion in delays. The delays are spread across a three-year period, beginning in 2025-26, without reducing total funding throughout this time period. A significant educational item included in these delays is \$550 million from the Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program. Further, the proposed budget includes \$3.4 billion in budget shifts

from the General Fund to other funds, including using Proposition 2 Debt Repayment Funding for state retirement contributions. Finally, \$2.1 billion in deferrals to the 2025-26 fiscal year are included.

Education

Education Funding

Total Proposition 98 funding for 2022-23 and 2023-24 are revised to be \$98.3 billion and \$105.6 billion, and additionally, it includes \$109.1 billion for 2024-25. These totals include a total three-year decrease of \$11.3 billion. The proposed budget includes various statutory changes to address \$8 billion of this decrease to mitigate impacts on existing local education agency (LEA) and community college districts. Proposition 98 continues to maintain its Test 1 status between 2022-23 and 2024-25, providing approximately 39 percent of General Fund revenues to Proposition 98, as well as local property tax revenues. Proposition 98 revenues continue to reflect re-benching to include the expansion of Transitional Kindergarten, which brings the total Test 1 percentage to 39.5 percent.

Total education funding equals \$126.8 billion, including \$76.4 billion General Fund and \$50.4 billion in other funds for K-12. A total of \$17,653 per pupil funding is provided in Proposition 98 General Fund, and \$23,519 per pupil from all funding sources.

Public School System Stabilization Account

A total of \$339 million is proposed to be deposited into the PSSSA in 2022-23, \$288 million in 2023-24, and \$752 million in 2024-25. Withdrawals are also reflected for 2023-24 of approximately \$3 billion, as well as \$2.7 billion in 2024-25, bringing the total account balance to \$3.8 billion. The existing cap of ten percent on school district reserves for fiscal years immediately following years where the PSSA balance is equivalent or higher than three percent of the total K-12 Proposition 98 Guarantee continues to be triggered in 2024-25.

Educational Revenue Augmentation Fund

The Educational Revenue Augmentation Fund (ERAF) shifts property tax revenues from cities, counties and special districts to schools, providing a dollar-for-dollar General Fund savings based upon how much funds are shifted should Test 1 of Proposition 98 is not enacted. The proposed budget includes statutory language clarifying that charter schools are eligible to receive ERAF.

Local Control Funding Formula

The proposed Local Control Funding Formula (LCFF) cost-of-living is solely 0.76 percent, resulting in a decrease of about \$1.4 billion in discretionary funding for LEA. To offset this, the budget proposes utilizing \$2.8 billion from the PSSSA for maintaining LCFF costs through 2023-24, \$2.2 billion to support LCFF in 2024-25, and utilizing reappropriation and reversion funding which totals \$38.6 million to support ongoing LCFF costs for 2024-25.

Instructional Continuity

The proposed budget includes statutory changes allowing LEA to provide attendance recovery opportunities to make up lost instructional time due to challenges, such as severe climate events, illness, or barriers that impact

attendance. These changes are expected to mitigate learning loss, chronic absenteeism, as well as the fiscal impact these issues have on schools. These changes would allow LEAs to add attendance recovery time to attendance data, would require LEAs to provide students with access to remote instruction or support to allow a student to enroll at a neighboring LEA for emergencies lasting more than five days, and would encourage LEAs to provide hybrid or remote learning for students who are unable to attend school.

An additional \$6 million one-time Proposition 98 General Fund is provided to research existing and develop new models of hybrid and remote learning, as well as to investigate local student information systems to allow LEAs to report individual student absence dates that can disaggregate absences related to emergencies.

California State Preschool Program

The proposed budget includes a \$53.7 million General Fund, in addition to about \$140.6 million General Fund and \$206.3 million Proposition 98 General Fund, which was identified in the 2023 Budget Act to support recently ratified collective bargaining agreements with childcare providers.

Teacher Preparation and Professional Development

Supporting teachers and addressing the teacher shortage is proposed by including a proposal that recognizes the completion of a bachelor's degree as satisfying the basic skills requirement for a credential as well as improving transcript review to certify subject matter competency. These proposals are intended to streamline the overall process as well as to reduce costs for well-qualified teacher candidates who are working on earning a credential.

To support the student screening for reading difficulties, including dyslexia, which was established in the 2023 Budget Act, the proposed budget includes a \$25 million ongoing Proposition 98 General Fund through the K-12 Mandate Block Grant.

A total of \$20 million one-time Proposition 98 General Fund is proposed to provide support for the new mathematics framework by funding a county office of education to work with the University of California Subject Matter Projects, as well as well-qualified governmental or non-profit providers, to develop and provide training for mathematics coaches to can provide training and support to math teachers. Statutory changes are also proposed that will use unexpended allocated Learning Recovery Emergency Block Grant funds to address the needs of students impacted by learning loss. Further, language is included that will enable school staff to have the tools needed to recognize and offer mental health support to students.

School Facilities

The proposed budget adjusts planned investments in 2024-25 to the School Facility Program from \$875 million to \$375 million one-time General Fund to address the projected budget shortfall. The Governor states his intention to enter into negotiations with the Legislature on their education facilities bond proposals and to reach an agreement on a bond proposal that can be considered in the November 2024 election.

The proposed budget delays the planned \$550 million in funding to the California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program from 2024-25 to 2025-26 to address the budget shortfall.

Additional significant adjustments include:

- The budget proposes that the Commission on Teacher Credentialing create a new Elementary Arts and Music Education authorization for career technical education (CTE) teachers;
- Local Property Tax Adjustments – Decrease of \$113 million Proposition 98 General Fund for school districts and county offices of education in 2023-24, as well as a decrease of \$996 million ongoing Proposition 98 General Fund resulting from increased offsetting property taxes;
- Cost-of-Living Adjustments (COLA) – Increase of \$65 million ongoing Proposition 98 General Fund reflecting a 0.76 percent COLA for the LCFF Equity Multiplier as well as Special Education, Child Nutrition, State Preschool, Youth in Foster Care, mandates Block Grant, Adults in Correctional Facilities Program, Charter School Facility Grant Program, American Indian Education Centers, and the American Indian Early Childhood Educational Program;
- County Offices of Education – Decrease of \$5 million ongoing Proposition 98 General Fund reflecting ADA changes to the LCFF as well as a 0.76 percent COLA;
- Zero-Emission School Buses – Maintains \$500 million one-time Proposition 98 General Fund to greening school bus fleets in 2024-25;
- Curriculum-Embedded Performance tasks for Science – Increase of \$7 million one-time Proposition 98 General Fund for inquiry-based science instruction and assessment through curriculum-embedded performance tasks that will be used to develop and measure a student's science subject matter knowledge and critical thinking skills through real world investigations and simulations;
- Cradle-to-Career Data System – Increase of \$5 million ongoing Proposition 98 General Fund for the California College Guidance Initiative;
- Nutrition – Increase of \$122.2 million ongoing Proposition 98 General Fund to fully fund universal school meal programs in 2024-25, reflecting about 845 million meals served in 2024-25;
- Broadband Infrastructure Grant – Increase of \$5 million one-time non-Proposition 98 General Fund to extend this program through 2029;
- K-12 High Speed Network – Increase of \$3.2 million ongoing Proposition 98 General Fund;
- Parks Access – Increase of \$2.1 million ongoing Proposition 98 General Fund for a county office of education to allow fourth graders attending public schools to access state parks;
- Inclusive College Technical Assistance Center – Increase of \$2 million ongoing Proposition 98 General Fund to create a Technical Assistance Center to assist LEAs with developing and submitting federal comprehensive transition and postsecondary program applications to help students apply for the Free Application for Federal Student Aid, to facilitate collaboration between LEAs and institutions of Higher Education to support students, and to assist LEAs with the identification of potential funding sources and student financial assistance opportunities;
- Homeless Education Technical Assistance Centers – Increase of \$1.5 million ongoing Proposition 98 General Fund to provide support for Homeless Education Technical Assistance Centers;
- State Special Schools Infrastructure Support – Increase of \$3.4 million General Fund, which includes \$380,000 in ongoing funding, to replace critical servers, maintain warranty coverage for network infrastructure, and refresh laptops, tablets, and workstations for students and staff at the State Special Schools and Diagnostic Centers.

Higher Education

Governor Newsom signed an Executive Order in the Fall of 2023 creating a comprehensive effort to rearchitect California's education and workforce systems, which will result in a Master Plan for Career Education, which is scheduled to be published in late 2024.

University of California

The proposed budget defers \$227.8 million in planned funding for the 2024-25 Compact investment as well as the planned \$31 million that was intended to offset revenue reduction associated with the replacement of 902 nonresident undergraduate students in 2024-25. Ongoing funding is expected to be maintained at 2023-24 levels while allowing the University of California to utilize interim financial structures or other internal borrowing mechanisms to support spending at the planned 2024-25 Compact level.

Additional significant adjustments include:

- Compact Deferral – One-time deferral of \$227.8 million General Fund, reflecting the 2024-25 five-percent General Fund resource adjustment. In 2025-26, the University of California should plan for the repayment of the one-time deferral and \$227.8 million ongoing General Fund to be included in the base budget;
- Resident Undergraduate Enrollment Growth Deferral – One-time deferral of \$31 million General Fund, offsetting revenue reductions associated with the replacement of 902 nonresident undergraduate students;
- Graduate Medical Education Backfill – Increase of \$2.6 million ongoing General Fund and \$247,000 one-time General Fund to offset declining Proposition 56 revenue for graduate medical residency slots;
- Medical School Project at UC Merced – Increase of \$14.5 million ongoing General Fund to support a Medical School Project at UC Merced;
- Eliminate a planned \$300 million one-time General Fund support for the construction of an Institute for Immunology and Immunotherapy at UC Los Angeles.

California State University

The proposed budget defers the planned 2024-25 Compact investment of \$240.2 million to 2025-26 to maintain ongoing CSU General Funding at 2023-24 levels while allowing the system to use interim financial structures or internal borrowing to support spending at the planned 2024-25 Compact level. One-time deferral of \$240.2 million General Fund, representing the five-percent 2024-25 General Fund resource adjustment.

California Community Colleges

Significant adjustments include:

- Apportionments – Increase of \$69.1 million ongoing Proposition 98 General Fund for a 0.76 percent COLA for the Student Centered Funding Formula apportionments and \$29.6 million ongoing Proposition 98 General Fund for 0.5 percent enrollment growth;
- Categorical Program COLA – Increase of \$9.3 million ongoing Proposition 98 General Fund for a 0.76 percent COLA for selected categorical and the Adult Education Program;
- K-15 Rainy Day Fund – Withdrawal of \$235.9 million in 2023-24, \$486.2 million in 2024-25 to support the Student Centered Funding Formula;
- Nursing Program Support – Increase of \$60 million one-time Proposition 98 General Fund to expand nursing programs.

Student Housing

The budget proposes suspending funding for the California Student Housing Revolving Loan Fund Program, including pulling \$300 million one-time General Fund intended to be appropriated for the program between 2024-25 through 2028-29, while reverting \$194 million out of \$200 million one-time General Fund appropriated in 2023-24.

Pensions

California Public Employment Retirement System

The proposed budget includes \$6.9 billion for the state's statutorily required annual contribution for state pension costs in 2024-25, reflecting a \$1.6 billion lower amount than was included in the 2023 Budget Act due to the inclusion of prior Proposition 2 debt repayment funding being paid to CalPERS.

California State Teachers' Retirement System

An inclusion of \$4.2 billion General Fund is included in the proposed budget for the statutorily required annual state contribution in 2024-25. The included \$302 million increase from the 2023 Budget Act is a result of higher-than-anticipated growth in credible compensation from 2021-22 through 2022-23.