

# FISCAL REPORT

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PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS

## LAO Analyzes Governor's 2022-23 State Budget



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The Legislative Analyst's Office (LAO) released its [2022-23 Budget Overview](#) of Governor Gavin Newsom's State Budget proposal earlier this month, and followed up with a [presentation](#) to the Senate Budget and Fiscal Review Committee. There are some interesting perspectives in the LAO's analysis that could impact State Budget negotiations and K-14 education.

### State Surplus and Spending Architecture

The LAO estimates that the state has a surplus of \$29 billion to allocate in the 2022-23 State Budget, which is \$8 billion more than Governor Newsom's estimates. The difference is largely because the Administration excludes investments that it deems obligated spending for items that the LAO sees as discretionary. The \$45.7 billion surplus that the Governor highlighted in his press conference unveiling his State Budget did not exclude year-over-year obligated state expenses, including its Proposition 98 obligations.

Despite differences in the size of the State Budget surplus, the LAO believes that the Governor's multiyear revenue assumptions are a reasonable "middle of the road" approach to forecasting. The Governor uses more cautious and conservative estimates when compared to the LAO's most recent projections. The Legislature could adopt higher revenue assumptions than the Governor's to develop its version of the 2022-23 State Budget over the coming months but doing so would limit the Legislature's ability to increase proposed investments as the state's revenue picture becomes clearer in May.

The Governor's State Budget allocates \$17.3 billion in one-time spending, anticipates a \$6.2 billion reduction in revenues, increases contributions to the state's rainy-day fund while also paying down other outstanding debts and liabilities. The LAO credits the Newsom Administration for its cautious multiyear revenue estimates but is concerned that the negative balance in the rainy-day fund in 2023-24 relies on too many risky assumptions. Therefore, the LAO encourages the Legislature to put more aside in state reserves than what is proposed by the Governor.

For K-12 and community colleges, the Governor's State Budget proposes a total of \$18 billion in new spending across an array of one-time and ongoing, as well as existing and new, investments.

### State Appropriations Limit

How much the state can spend across the State Budget is being impacted by the State Appropriations Limit (SAL), which is the state’s equivalent to local Gann Limits. Across the three-year budget window, the LAO believes that the SAL will be a major consideration for the state. Consequently, the LAO encourages the Legislature to develop a plan for how the state can meet the SAL requirement across 2020–21 and 2021–22, and into 2022–23. The Legislature may have different priorities for addressing SAL and may want to use the state’s spending options on alternative excluded expenditures or other solutions. The LAO clarifies that some of the Governor’s proposals to spend excess revenue are already SAL-excluded expenditures—such as \$4.3 billion for transportation infrastructure, \$1.4 billion for green school buses (Proposition 98), and \$450 million for school kitchen upgrades (Proposition 98)—and therefore limiting the Legislature’s flexibility, as these expenditure amounts can only be reallocated to other SAL-related purposes, such as tax reductions.

**Proposition 98 Minimum Guarantee**

Proposition 98 establishes a minimum annual funding level for schools and community colleges, commonly known as the minimum guarantee. The Governor’s State Budget includes substantial increases of \$17.7 billion to the minimum guarantee required under Proposition 98, reflecting higher revenues than prior estimates, growth in local property tax revenue, and an adjustment to “rebench” the guarantee for the expansion of transitional kindergarten.

Fiscal Year	Change From 2021 Budget Act Estimates
2020–21	\$2.5 billion (2.7%)
2021–22	\$5.3 billion (5.7%)
2022–23	\$8.2 billion (8.8%)
Proposition 98 Adjustments	\$1.6 billion
<b>Total Available New Funding</b>	<b>\$17.7 billion</b>

The LAO notes that \$10.6 billion of new funding is dedicated to ongoing investments while nearly \$7.2 billion is for one-time activities, which can be summarized in four main categories:

- Prior commitments: \$5.3 billion ongoing (expansion of Expanded Learning Opportunities Program, universal transitional kindergarten, school meals, rate increase for State Preschool and community college financial aid)
- Cost-of-living adjustment and workload adjustments: \$4.1 billion ongoing
- Infrastructure: \$2.3 billion one-time (electric school buses, kitchen upgrades, deferred maintenance, and funding for projects under the State School Facility Program), which are exclusions from the SAL
- College and career pathways: \$1.5 billion one-time

**LAO Recognizes Local Capacity Limitations**

The LAO acknowledges that the confluence of new programs and initiatives, with their unique requirements and the ongoing impact of the health pandemic on the continued provision of in-person instruction, is impacting the capacity of K-12 school agencies and community college districts to implement them well. Thus, the LAO suggests gathering information on the impact, capacity challenges, and existing needs of the systems via oversight of implementation of new and existing requirements, prior to determining the Legislature's approach to allocating new Proposition 98 resources. This concern with capacity overload is a theme in the LAO's analysis and is reflected in several other recommendations to support fewer new initiatives beyond education across the State Budget.

In summary, the LAO's analysis of the Governor's 2022-23 State Budget is that it contains many positive investments, meets prior-year commitments, and uses cautious but reasonable revenue assumptions. However, the LAO offers several considerations for the Legislature to build on the Governor's State Budget proposal, including reinforcing the state's rainy-day fund and ensuring state funds are used optimally when paired with anticipated federal revenue.