



California School Boards Association

Governor and Legislature agree on early action to reduce budget shortfall

On April 4, Gov. Gavin Newsom, Speaker of the Assembly Robert Rivas (D–Hollister) and Senate President Pro Tem Mike McGuire (D–Healdsburg) announced an agreement to take early action on the budget to lower the state’s projected deficit. Although the announced measures do not touch on the crucial topic of Proposition 98, they do carry some implications for school facilities funding. The primary intent is to reduce the budget shortfall by \$17 billion through a number of actions on one-time monies, fund shifts, deferrals, withdrawals from the state general fund reserve, and borrowing from the Managed Care Organization (MCO) provider tax.

This plan is reflective of the Senate’s “**Shrink the Shortfall**” plan announced in late March. In both cases, the Legislature is agreeing to use the Governor’s January Budget deficit estimate of \$58 billion, as opposed to the nonpartisan Legislative Analyst Office’s February estimate of \$73 billion. According to the Assembly, taking early action will turn what is estimated to be a \$38 billion to \$58 billion shortfall into a shortfall between \$9 billion and \$24 billion. Although January and February revenues came in below budget expectations, March personal income tax receipts are showing glimmers of hope that revenue estimates will continue to grow as the state gets closer to the May Revise. If that trend continues, there is a chance that when combined with these early budget actions the deficit will not increase.

Notably, the agreement does not address the K-12 education side of the budget and the Governor’s proposed Proposition 98 “funding maneuver.” This maneuver would fund an estimated \$8 billion gap in Prop 98 funding in the prior 2022–23 fiscal year by borrowing against future-year state general fund revenues. Essentially, if adopted, the state would fund paying a prior-year debt using future state general fund revenues. CSBA has **expressed strong concern** about the maneuver on the grounds that it would undermine the spirit of Prop 98, as well as its statutory and constitutional requirements. The concern is that the proposal would set a worrisome precedent, which if adopted, could be used by future governors and Legislatures to avoid complying with the Prop 98 funding guarantee.

However, the agreement does include two measures related to education facilities funding. First, it approves the Governor’s proposal to pull back \$500 million in School Facility Program funding. Second, it approves the Governor’s proposal to delay disbursement of \$550 million in the Preschool, Transitional Kindergarten and Full-Day Kindergarten Facility Program.

What’s next?

The Legislature plans to take up the early actions later next week, possibly by April 11. Regarding the remaining pieces of the budget, including K-12 funding and Prop 98, hearings are in full swing in the Legislature as the Senate and Assembly work their way

through the Governor's budget. Hearings will continue throughout the spring before Gov. Newsom releases his May Budget Revision by May 15. Negotiations between the Administration and the Legislature will be ongoing until the June 15 deadline for the Legislature to pass the budget bill, at which point the Governor will then have until July 1 to sign the bill.

CSBA will continue to keep members apprised of budget developments and opportunities for advocacy.
