

## Overview of the Governor's proposed 2023-24 State Budget and Commission Impacts

January 16, 2023

### Summary

Governor Newsom presented his proposed State Budget for Fiscal Year (FY) 2023-24 on January 10, 2023. The Governor's proposed Budget responds to a projected deficit of over \$20 billion, marking a departure from the prior two fiscal years of multibillion dollar budget surpluses. As a result, the Governor proposed a combination of funding delays, reductions, and "trigger" mechanisms that ensure a balanced State Budget while not utilizing any of the funding held in state reserves, preserving those resources for further resilience should the state enter an economic recession. Overall, the Governor's proposed 2023-24 State Budget represents a total appropriation of \$297 billion in funding.

Notably, despite these budgetary headwinds, the Governor's proposed Budget would continue to fully fund Commission administered programs, as well as base funding increases that were included as part of the multi-year "compacts" with the University of California (UC) and California State University (CSU). Additionally, as described below, the proposed 2023-24 Budget supports one-time funding increases for the Middle Class Scholarship, as agreed to in the 2022 Budget Act, as well as several priorities requested by the Commission.

This continued investment and commitment to higher education, despite such budgetary challenges, reflects the Governor's focus on student needs and advancing educational equity. Given the discretionary nature of higher education funding relative to other state appropriations, Governor Newsom has demonstrated his prioritization of the work done by the Commission and higher education segments to create opportunities for students, as well as the role of higher education in supporting the talent pipeline that underpins California's economy.

### California Student Aid Commission

Governor Newsom's proposed 2023-24 State Budget includes over \$3.2 billion in funding for the Student Aid Commission, of which \$2.3 billion would support the Cal Grant program. In developing the annual State Budget, Commission staff worked closely with Administration and Legislative staff to provide estimates on student application for and participation in state financial aid programs in order to ensure that an associated amount of funding is provided to support the "entitlement" awards that are guaranteed to students should they meet income and academic eligibility requirements. After expansions in Cal Grant access enacted over the past several years, the proposed 2023-24 State Budget estimates that over 377,000 students will qualify for Cal Grant entitlement awards, with another 13,000 awards offered through the "Competitive Cal Grant" program.

The proposed 2023-23 State Budget addresses several other Commission programs or priorities by taking the following actions:

- **Maintains full support for Commission programs without any funding reductions, delays, or redirections** – Despite projected budget shortfalls of over \$20 billion, there were no proposed reductions to any of the programs administered by CSAC. Billions in funding reductions, delays, or redirections are proposed in other elements of the State Budget.
- **Provides \$227 million one-time funding increase for the Middle Class Scholarship** – Per the 2022 State Budget agreement, an additional \$227 million in one-time funding was proposed for the Middle Class Scholarship program, bringing its total appropriation to \$859 million.
- **Provides \$1.4 million in funding for Commission information security** – The Governor’s proposed Budget includes funding and two staff positions that CSAC requested for cybersecurity purposes through our Budget Change Proposal. This reflects \$1.4 million in funding, of which \$469K is ongoing, and two new staff positions.
- **Provides \$241,000 in funding for one HR position and FAFSA/CADAA toolkits** – The proposed Budget includes funding to support one new staff position for human resources needs at CSAC, as well as funding to support the distribution of toolkits to support efforts around “All In for FAFSA/CA Dream Act” to help high school seniors apply for financial aid.
- **Extends the duration for Golden State Education and Training Grant Program** – The proposed Budget revises the fiscal years in which CSAC would expend program funds by extending the duration of the program through 2026-27. Current law would result in the program concluding at the end of FY 2023-24.
- **Indicates continued attention to Cal Grant Reform** – The proposed Budget summary expresses the Administration’s continued attention to implementation of Cal Grant Reform and intention to continue working with the Legislature, Commission, and others as we near the 2024 implementation date.

## **Public Higher Education Segments & Student Housing**

Through the 2022-23 State Budget process, Governor Newsom’s Administration established “compacts” with the UC and CSU, as well as a “Roadmap” for the California Community Colleges (CCC), to clearly articulate goals in college access and student success for each segment and more broadly for the state as whole. As determined through these agreements, predictable and consistent state funding support a clear pathway for how the public higher education segments are expected to successfully reach these goals.

The proposed 2023-24 State Budget makes good on the commitments articulated by the Governor as it related to the ongoing funding support for public higher education. The Governor’s proposal includes five percent base funding increases for both the UC (reflecting \$215.5 million in state General Fund) and the CSU (\$227.3

million in state General Fund). Additionally, the Governor's proposed Budget includes another \$30 million to offset the lost revenue to the UC by offering enrollment to California resident undergraduate students rather than 902 non-resident students, as agreed to in the 2022-23 State Budget package; these additional seats for California resident students are beyond the one percent enrollment growth at UC that would be supported by the base funding increase.

The proposed Budget also continues to fund the CCC in alignment with the roadmap agreement, with \$652.6 million in additional, ongoing Proposition 98 funding to support an eight percent cost-of-living adjustment (COLA) as part of the colleges' apportionments. The Governor's Budget also proposes a one-time appropriation of \$200 million in Proposition 98 funding to support recruitment and retention efforts in light of the enrollment declines at the CCC.

Governor Newsom's proposed 2023-24 Budget does include several changes to funding for public higher education segments and student housing that respond to the projected deficits. The proposal would delay funding for several capital outlay projects at UC, including campus expansion efforts in Riverside and Merced; it also proposes that CSU utilize its own issued bonds to finance capital projects, while state General Fund (\$27 million) would support the associated costs of debt service. Student housing investments included in the 2022-23 State Budget package would also be delayed: \$250 million of \$2.2 billion in funding for affordable student housing grants to public institutions would be delayed for appropriation until FY 2024-25, as well as the first round of funding to support a \$1.8 billion revolving loan fund for student housing.

### **Next Steps**

The Legislature will begin to hold Budget Committee hearings on January 18 to review the Governor's proposals for the 2023-24 State Budget, as well as identify their own priorities and approach to the projected deficit. Legislative hearings will continue throughout the Spring before the Governor releases his updated proposals in the May Revision, which will incorporate available data on updated revenue estimates and economic conditions. Following the release of the May Revision, which is constitutionally required to be issued no later than May 15 of each year, the Governor and Legislature will begin their final round of negotiations. The Legislature is constitutionally required to pass a balanced State Budget by June 15, though legislation passed and signed after that date can amend its terms – which has occurred over the past several years. The 2023-24 fiscal year begins on July 1, 2023.