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HIGHLIGHTING STRATEGIES FOR STUDENT SUCCESS

Legislative Analyst predicts healthy state revenues for California schools, community colleges

NOVEMBER 15, 2017 | JOHN FENSTERWALD



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California State Capitol

Uncertainty over the impact of a proposed Republican tax cut on the state's economy and budget is hanging like a cloud over California, but at this point, the Legislative Analyst's Office is projecting robust growth in state revenue for K-12 schools and community colleges in the coming year.

The LAO is predicting that the schools and community colleges will get \$3.2 billion more in 2018-19 under Proposition 98, the constitutional formula that determines minimum school funding. That would be an increase of 4.3 percent, bringing the Prop. 98 total to \$77.7 billion, according to the [LAO report released Wednesday](#).

K-12 schools get about 89 percent of Prop. 98 funding, with community colleges getting most of the remainder.

Every November, the LAO gives a four-year budget forecast; in January, when Gov. Jerry Brown releases his proposed state budget for next year, school districts will see how closely they jibe. Both Brown and the LAO must look ahead 18 months to create their numbers — and Brown will revise his 2018-19 estimate in May. Brown's Department of Finance tends to use more conservative numbers, to dampen expectations for ongoing spending.

Along with the increase in Prop. 98 funding, the LAO says \$2 billion that had been earmarked for specific purposes, including spending on energy conservation projects, will be freed up, bringing the total of "new" Prop. 98 money to \$5.2 billion.

Asked for his reaction, Dennis Meyers, assistant executive director, governmental relations, for the California School Boards Association, wrote in an email, "Sure it's good news, and once again it's all about funding to the guarantee and *not* to the need. The disinvestment in public schools that started in the early 1970s continues, and CSBA will continue to work toward full and fair funding even if it's a difficult message for some to hear."

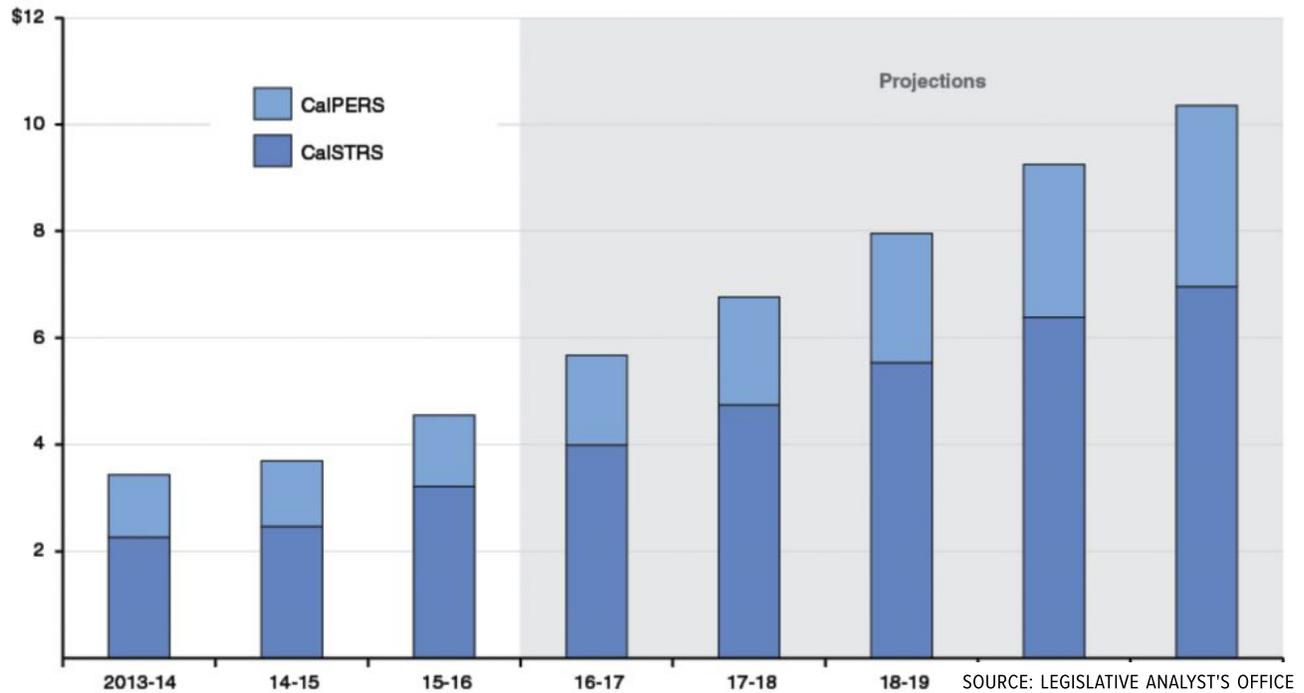
Next year's budget will mark the first time since 2005-06 that the state will repay all past obligations, called "the maintenance factor," owed to districts under complex parameters of Prop. 98 funding.

But K-12 school districts won't be feeling that flush; increases in districts' share of rising costs for teacher and other employee pensions will eat up \$1.3 billion, more than 40 percent of the Prop. 98 increase next year and for the following two years, the LAO says. The Legislature laid out districts' obligations through 2020-21 in a deal three years ago to rescue CalSTRS, the state teachers pension fund, and CalPERS, the pension fund that covers state, municipal and non-credentialed school employees.

"Under our recession scenario, pension costs would rise even as the (Prop. 98) guarantee dropped, magnifying the difficult decisions schools and community colleges would face," the LAO wrote.

School and Community College Pension Costs Rising Over the Period

Annual Employer Contributions (In Billions)



By 2020-2021, school districts payments to CalSTRS and CalPERS to cover costs of teacher and other school employee pensions will have nearly tripled since 2013-14, to \$10.4 billion per year.

The Prop. 98 increase next year should enable Brown to declare his landmark education legacy, the Local Control Funding Formula, to be fully funded in his last year in office — two years earlier than he had forecast when the law passed in 2013. The formula, which directs additional money to districts based on their enrollment of low-income students, English learners, homeless children and foster youths, is currently 97 percent funded. An additional \$2.7 billion will bring it to 100 percent, which means that funding for all districts has been restored at least to the 2008-09, pre-recession level, plus annual cost of living increases.

Fully funding LCFF would still leave Brown with about \$2.5 billion to play with, according to the LAO. He could put more money toward universal preschool or pay for the California College Promise, the unfunded commitment the Legislature passed this year to provide a free year of community college for all.

Or, recognizing rising pension and special education costs that districts are facing, Brown could put additional money to expand the base grant portion of the Local Control Funding Formula, which may require amending the law he created. Districts that haven't done as well under the formula are calling for that.

But the LAO noted that Brown has set aside about 15 percent of new money in his budgets for one-time spending, in order not to commit to ongoing costs in the event of a recession, which Brown has predicted nearly every year since his election. That pattern is unlikely to change in his last budget.

The congressional Republicans' tax plan — with its call for the elimination of some or all federal income deductions that Californians have taken for state and local income taxes, sales and real estate taxes — accompanied by big cuts to health care spending, could affect the state's economy and budget. But too much is in flux for the LAO to predict the impact in the November forecast.

Instead, looking ahead, the LAO gave two scenarios. Under the growth scenario, Prop. 98 funding would rise through 2021-22 by \$12 billion, to \$87.5 billion, a healthy increase of 16 percent over four years. In a recession scenario, the Prop. 98 guarantee would fall \$5 billion (6.4 percent) in 2019-20 and an additional \$2.4 billion the following year. That would lead to cuts in ongoing programs, although the state could resort to budget tricks, like deferrals — budgeting money that districts would not see until the following year.

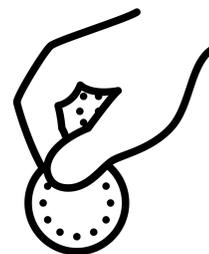
One other sobering projection: Enrollment in K-12 schools statewide will continue a gradual decline of about a half-percent annually for the next four years, about 30,000 students per year. Some districts will continue to grow, but those in regions like the Bay Area, where expensive housing is driving out families, will see accompanying declines in state revenue, since funding is tied to enrollment.

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The LCFF has had the good fortune of historically unprecedented solid revenue growth since its inception and next year will be no exception. The formula fundamentally changed the distribution of state funding to local districts and within those districts with a focus on increasing outcomes for minorities, ELLs and foster students. While California remains a laggard in per pupil funding after 8 years or so of LCFF why have achievement gaps grown? What does this ... [Read More](#)

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Deepak: Charter schools are public schools, so the total state enrollment projection includes charter schools and district schools. The California Charter Schools Association reported last month that charter school enrollment this year is up 27,000 students.

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In addition to the unfunded expense of CalSTRS and CalPERS contribution increases, there's also the unfunded minimum wage increase that is affecting schools. Classified employees are valuable and deserve the increase, but unlike say fast food restaurants, schools can't raise their prices to pass through that additional cost. But, the two together are a multiplier, doubling the cost of a minimum wage employee over bit more than a decade, and of course increasing the whole ... [Read More](#)

