PACE

COMMENTARY

As Funding for Schools Plummets, California Leaders Face a Fiscal Reckoning



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As California and the rest of the country enter a pandemic-induced economic downturn—one that economists predict could be the worst since the Great Depression—schools are bracing for the fallout. A triple whammy faces educators: painful budget cuts combined with increased student needs and rising costs. Few students will emerge from these school closures unscathed. Nearly all will have lost the learning, routines, socialization, and supports they get from school; many will also suffer from the effects of housing and food insecurity, not to mention anxiety and other traumas.

It may be some months before school district leaders arrive at the budgetary cliff but it is certainly approaching. Even as the state and districts plan for the imminent downturn, they should also start planning for our fiscal future.

The budget California adopts in June will not accurately reflect the severe fiscal distress the state faces. COVID-19's economic havoc was not felt until nearly three quarters of the way through an otherwise strong fiscal year. Tax receipts, which lag economic activity, have continued to look strong. The June budget will probably be an austere "baseline" version, stripped of the rich one-time education programs found in the Governor's January proposal. But a budget revision later in the summer, after July 15 tax receipts are recorded, could be far worse. How far state revenues will fall, and how quickly California will recover, is still anyone's guess.

As the state economy plummets, so too will funding for schools. California education funding is pegged against its income-tax-heavy General Fund. In good economic years, education funding surges as California's top-income earners win big on the stock market. For example, California education spending surged rapidly during the recent economic recovery, with per-pupil spending rising from roughly $8,450 in 2012–13 to $13,100 just six years later, a 55 percent increase. In bad economic years, education funding severely suffers as those earnings from capital gains evaporate. During the Great Recession, state and local funding for schools plunged by more than $7 billion, about 15 percent, in just one year—and the first year of this recession is expected to be worse.

In the short term, the bleeding will partly be stemmed by a modest infusion of federal dollars: California K–12 school districts are expected to receive roughly $1.6 billion from The Coronavirus Aid, Relief, and Economic Security (CARES) Act But that funding—about $270 per pupil on average—is not enough to cover the unexpected and increased cost of internet connectivity, teacher training, and safety measures, much less to backfill funds lost due to the economic contraction.

High-poverty districts will feel the biggest reductions if the state doesn't take measures to protect supplemental and concentration grants—funding districts receive for serving low-income students, English language learner students, or students in foster care. Already, those districts are more dependent on state funds and less likely to have the cushion of local parcel taxes, hefty parent contributions, and other local donations. These inequities will only worsen as economic inequality grows due to rising unemployment and insufficient safety nets.

Planning for Today

To weather the immediate storm, state leaders should:

- fund education well above the constitutionally guaranteed minimum funding level and shield supplemental and concentration grants from reductions;
- loudly demand more federal aid—a true stimulus that could propel greater investments in student learning and well-being; and
- target one-time funds on schools serving vulnerable students, since that's where the cuts and needs will be most acutely felt.

State leaders should also revisit lessons learned in California during the Great Recession about the need for increased flexibilities around spending and staffing. State leaders could:

- offer flexibility around school calendars, seat-time requirements, and class sizes;
- prohibit seniority-based layoffs in some or all cases; and
- expand the windows during which layoff notices can be issued.

To help districts find more room in their budgets, state leaders should also help districts reduce spending on employee benefits, including healthcare, without compromising quality.

Planning for Tomorrow

Equally important, state and local leaders should begin reimagining our education funding system. The volatility of California's education budget is not inevitable; it is a system voters and policymakers created and one they can change. Our funding system is more dependent on state funds—particularly economically-sensitive income taxes—than most other states. When the economy tanks, education suffers more here than in many other states

IT'S TIME TO ANSWER THESE TWO QUESTIONS:

1. How can we diversify education funding's tax base so that it's less dependent on the volatile income tax? This could mean looking at other sources, like a services tax, and also expanding the role of property tax and other local taxes. Discussion of property taxes always raises two concerns: (a) fears of rolling back progress in fixing historic inequities in school funding; and (b) the specter of an assault on 1978's Proposition 13. In regards to the first, increased reliance on local *sources* need not come with the inequitable *spending* that was justly outlawed by courts in the 1970s with *Serrano v. Priest*. Instead, the state could raise more from local sources but redistribute it equitably. In regards to the second, perhaps today's progressive leaders will be the ones to finally modernize a system that has strangled California education funding for decades and also preserved intergenerational wealth disparities.

2. How might we revise or even replace Proposition 98? This decades-old formula, which calculates the state's minimum level of funding for education, shouldn't determine our state's spending priorities. Today's leaders, guided by today's values, should do that. So long as a complex formula automatically determines California education funding, schools will always be the big losers during a recession.

Of course, these kinds of profound changes will demand extraordinary political leadership and courage. The coming months and years will be painful for California's economy generally and for school funding more than most other areas. We have two choices: we can accept the cuts as inevitable and tighten our belts, or we can respond to this pandemic-induced fiscal crisis as a kickstart to finally reimagine and fully fund our schools—not just for this challenging moment but also for the future.

What are our state's priorities? Now is the time to invest in California's children and their teachers, not to starve them of resources.

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