



## LAO report fuels CSBA advocacy for increased school revenue and support

New projections from the Legislative Analyst’s Office bring some unexpectedly positive news for California’s education budget. A [new analysis](#) of the outlook for school and community college funding in the coming year shows that, despite lags in certain sectors, the state’s economic recovery has exceeded predictions and revenues have been significantly higher than assumed in June.

The windfall strengthens CSBA’s call for additional resources from the state to support students and help schools cope with the impact of COVID-19. Since the earliest days of the pandemic, CSBA has been advocating for additional resources to help LEAs pay for preventive measures such as personal protective equipment, deep cleaning and testing, and to provide broadband access and internet-enabled devices for all students. With the minimum Proposition 98 guarantee set to increase by more than \$13 billion in 2020–21, CSBA will amplify that message and also call for the elimination of deferrals that are creating severe cash flow challenges amidst other COVID-19 related budget pressures such as needing to combat learning loss, improve distance learning, provide equitable access to technology and implement practices that allow for the safe reopening of schools.

### Increase in revenues compared to June budget predictions

The state budget enacted in June assumed a significant reduction in the minimum Prop 98 guarantee as a result of anticipated drops in revenue due to the COVID-19 pandemic. To address the budget shortfall, the state reduced school and community college funding to the lower estimates of the minimum guarantee and implemented the reduction by deferring \$12.5 billion in payments for the Local Control Funding Formula, community colleges and special education funding. Aside from these deferrals, the budget for school and community college programs was held largely flat. The budget plan also included a statutory provision to accelerate school funding in future years via supplementary payments on top of the minimum guarantee, to combat the predicted decline in funding.

Thanks to a recovery in the state’s economy that began over the summer, the LAO now

estimates that General Fund tax revenues are up more than \$4 billion in 2019–20 and nearly \$34 billion in 2020–21 relative to the June 2020 budget’s estimates. With these increases, the minimum Prop 98 guarantee is up \$1.6 billion in 2019–20 and \$13.1 billion in 2020–21 as compared with the June budget plan. The LAO also finds that program costs for LCFF and other Prop 98 programs are down compared to those assumed by the June budget, reflecting lower attendance costs carrying forward from 2019–20 and continuing attendance declines in 2020–21.

### **“Settling up”**

Taking these changes into account, the LAO estimates that spending is \$1.6 billion below their estimate of the 2019–20 Prop 98 guarantee and more than \$12 billion below the estimated 2020–21 guarantee. Under these conditions, the state would be required make one-time payments of \$13.7 billion allocated for any Prop 98 purposes to “settle up” the difference over the two years. Furthermore, a deposit of \$1.5 billion into Proposition 98 Reserve would now be required, provided the legislature does not suspend the deposit under the budget emergency related to the COVID-19 pandemic

### **Reserve cap trigger projected for 2022–23**

The LAO projects there will be a required contribution over the next two years to the state’s Prop 98 reserve fund, raising the balance in that fund to nearly 4 percent of what the state spends on school districts (state General Fund and local property taxes). As a result, the LAO says the school district reserve cap trigger could be pulled in 2022–23, thus requiring school districts to spend down their assigned and unassigned reserves to 10 percent or less. The LAO says they expect this to impact 129 school districts. In 2017, CSBA sponsored Senate Bill 751, which exempted all small school districts (those with average daily attendance of 2,500 and below) from the cap and limited the cap to assigned and unassigned reserves. Those districts that could be impacted if the reserve cap applies would be advised to simply take board action to commit funds to reserves so they are not exposed. Unlike assigned and unassigned reserves which are generally identified by staff, committing funds requires action by the governing board and can be identified for any number of purposes. The committed funds may be committed to other purposes as needs arise with subsequent board action.

### **Continuing uncertainty**

While the most recent budget news is encouraging, it is unclear whether the economic performance is sustainable for the medium or long term. The higher than projected revenue numbers are largely due to the resilience of the stock market and the strong earnings for California’s high net worth residents — a group that provides about a third of all the state’s tax revenue. High unemployment in California — among the nation’s highest at 11 percent — has been balanced by robust revenue from personal income taxes and capital gains, which increased by 22 percent or \$11 billion in Quarter 1 and the first portion of Q2. A sharp drop in the stock market could quickly cloud the unexpectedly sunny forecast.

## What does this mean for the education budget?

Overall, these numbers mean a much-improved outlook for school funding. According to the LAO analysis, the revised Prop 98 guarantee for 2020–21, adjusted for inflation, would be at an all-time high. The analysis makes several observations as to how the state could proceed:

- *Pay down all existing deferrals:* The \$13.7 billion in available one-time funds could be used to reverse all \$12.5 billion in existing payment deferrals set to begin this February, increasing cash flow for schools and reducing pressure on future Prop 98 funding.
- *Reassessment of supplemental payments:* The LAO recommends that the Legislature reassess the planned supplemental payments, given that the funding decline these new payments were aimed at no longer exists.
- *Dedicate 2021–22 funding to one-time activities:* Since the state will have Prop 98 funds available for additional commitments in 2021–22, the LAO notes that setting aside some of that funding for one-time activities rather than ongoing ones could create a budget cushion, should the minimum drop in future years. Funding could be used to address learning loss experienced by students during the COVID-19 crisis or to set aside additional funding to protect against future economic downturns.

### CSBA is recommending that this windfall be used to:

1. Eliminate existing deferrals to LEAs.
2. Provide schools with additional funding and logistical support for PPE, deep cleaning, COVID-19 testing and other measures needed to support the health and safety of students, staff and community.
3. Allocate several hundred million dollars toward student broadband access in 2020–21 and finalize a plan for universal broadband access in California by 2026.
4. Provide funds to districts that are experiencing enrollment growth not covered in the budget trailer bills

CSBA will be advocating fiercely to ensure that we realize these goals, which are quite reasonable in the wake of the recent budget developments. We will keep you informed of important updates and encourage you to contact your local representatives to impress upon them the critical nature of these requests.



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