

Part 1-Public Education Funding and Attendance



**BY PATTI F. HERRERA,
EDD**

posted December 8, 2021

[Editor's Note: Occasionally, we at School Services of California Inc. find a topic worth exploring deeply. As funding for public education reaches historic levels, we wanted to unravel how K-12 and community college funding is determined each year alongside its trend since the California electorate approved Proposition 98 as a way to protect public education investments in Part 1 of a two-part series. In a forthcoming "Part 2," we will build on what we learn about the history of public education funding by looking within the minimum guarantee to see how the state is allocating resources to local school and college agencies.]

Established by California voters in 1988, Proposition 98 determines how much the state is obligated to spend—at a minimum—on public K-12 agencies and community colleges each year through a complex set of formulas (or “tests”). Specifically, one of three tests (Test 1, 2, or 3) determines education funding levels in any given year.

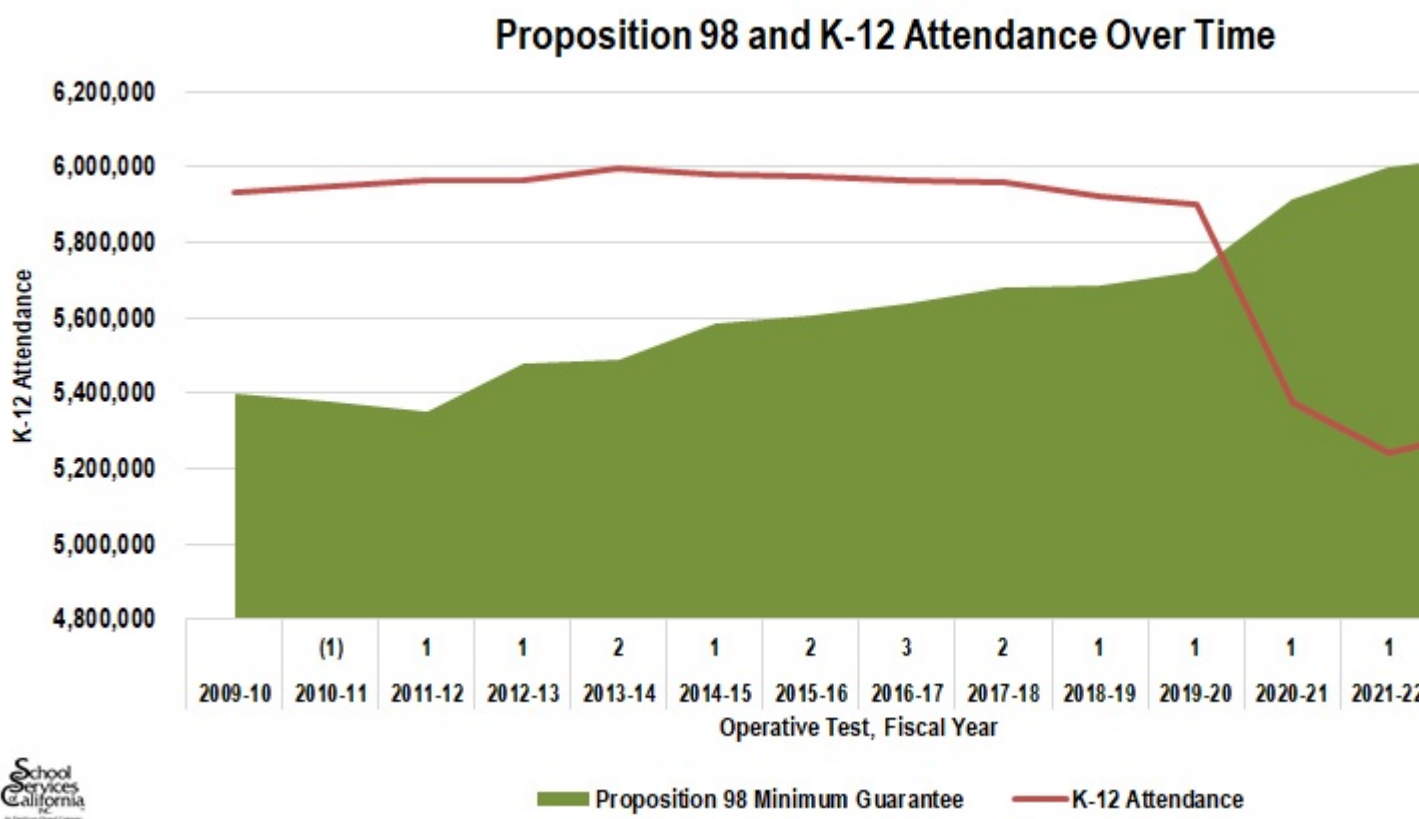
The state performs a series of computations to identify which test will be operative for a fiscal year, including calculating how much each test would yield for the Proposition 98 minimum guarantee. Once computed, the state selects the *lower* of Test 2 and Test 3 and then selects the *higher* of that result and Test 1.

Proposition 98 is intended to provide a minimum level of education funding that follows larger state revenue and economic trends. Two of three tests—Test 2 and 3—account for annual changes in K-12 student attendance while the Test 1 formula is insensitive to attendance fluctuations and instead ensures that state spending on K-14 education is at least equal to its share of 1986-87 state General Fund revenues (approximately 40%).

Mainly due to K-12 declining enrollment, funding for K-12 and community colleges has been determined by Test 1 for the last three fiscal years and is expected to be operative for the State Budget year (2022-23) through the Legislative Analyst's Office (LAO's) 2022-23 *State Budget Fiscal Outlook* forecast period (2025-26).

Although universal transitional kindergarten (TK), which will increase TK eligibility to all four-year-olds, is expected to increase enrollment by 230,000, which offsets an expected 170,000 decline in school-aged students, Governor Gavin Newsom and the Legislature agreed to adjust the Proposition 98 minimum guarantee to accommodate the additional TK students and by doing so maintains Test 1 as the operative test for the foreseeable future.

Despite these complexities, we can visualize how the Proposition 98 minimum guarantee has trended alongside changes in student attendance over time in the graph below.



This graph shows that, with the exception of the Great Recession, funding for the public K-12 and community college system has steadily increased while statewide K-12 attendance plateaued before beginning its modest descension in recent years. It is important to view student attendance after fiscal year 2019-20 with caution since the state still has an incomplete picture of any long-term effect of the COVID-19 pandemic on enrollment and attendance. However, the Department of Finance

expects California's K-12 enrollment to decline by 8.7% by 2031 irrespective of the current health pandemic.

Thus, while California still lags many states in per-student spending, the combination of recent economic prosperity and declining enrollment is resulting in historic levels of per-student funding in public education.

While this is certainly a positive trend in public education, exactly *how* these funds are allocated to local agencies and community colleges is decided annually by state lawmakers through the State Budget process. In Part 2 of our two-part series, we'll take a deeper look at how the Proposition 98 minimum guarantee is distributed across various education priorities.