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Public agencies choose cash injections over spending control

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When customers stop patronizing a business, it usually downsizes or even closes. Government agencies used to follow that approach, but, more recently in California, they have found a better alternative: use the political process to get more state funding. While great for an agency's employees and contractors, this new paradigm is leading to a bloated public sector.

California public school enrollment has been declining while funding has been rising rapidly. This is the unintended consequence of Proposition 98, a teacher's union backed measure passed in 1988, which guarantees that about 40% of state revenue goes to schools irrespective of how many students are attending them. As the tech sector generated a gusher of income tax and capital gains tax revenue, K-14 education benefited handsomely.

But some school districts are struggling despite increased state formula funding. Oakland Unified, for example, has required emergency funding to avoid insolvency. Declining enrollment has hit some Oakland schools particularly hard, with eight schools losing a third or more of their students since the 2013-14 school year. A reasonable response would be to merge schools, freeing up buildings and administrative staff. But the district has experienced stiff resistance to school consolidation.

Enrollment declines have also impacted Community College Districts. In 2012, City College of San Francisco's (CCSF) accreditor threatened to withdraw the institution's accreditation due to financial management and governance issues. Negative publicity caused a sharp fall in enrollment, reducing tuition revenue and enrollment-based state funding. After stabilizing, enrollment cratered once again during COVID. CCSF's student count fell from 72,569 in Fall 2012 to 20,733 in Fall 2022.

But instructional and administrative staff were not downsized accordingly. Instead, San Francisco-area representatives in the state legislature pushed for extra state funding to offset the revenue losses and maintain headcount. The community college district also placed parcel tax measures on the local ballot to increase revenue from San Francisco homeowners.

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While not all these efforts were successful, CCSF has been able to extract tens of millions of dollars of extra state and local tax revenues. As a result, CCSF is much larger than it needs to be to educate the relatively small number of young people in San Francisco who are neither pursuing other forms of higher education nor going directly into the workforce after high school.

A similar pattern is now playing out on a larger scale with California travel agencies. Pandemic-driven changes in commute patterns blew a large hole in transit agency budgets, especially for those like the Bay Area Rapid Transit system that were more fare-dependent. But rather than right-size to meet this new reality, agencies lobbied the state legislature for a financial lifeline. A partial bailout arrived at the end of the 2023-2024 budgeting cycle when the governor and legislators agreed to pump an additional $1.1 billion into transit agencies and allow them to repurpose some of their $4 billion in state capital funding to support operations.

While lobbying for more state aid, BART staff and most board directors resisted a request from Director Debora Allen to put together plans for a modest 10% spending reduction. Instead, a majority of board members approved a business-as-usual budget for the 2023-2025 biennium, leaving a $93 million gap for the state to fill.

The board majority would not even consider proposals to halt or delay BART's Link21 project, the goal of which is to build a subway under the San Francisco Bay roughly parallel to the one already in service. This project may have made sense in 2016, when rush hour BART utilization was rising toward the current tunnel's capacity. But now that ridership has collapsed, especially at peak commuting hours, there is no plausible scenario under which the tunnel would be fully utilized.

Instead of shelving the second tunnel, BART directors are supporting a $1.50 toll hike, which is now going through the state legislature. A more reasonable response would be to halt Link21 and repurpose forthcoming state funding intended for that project to instead support operations. The agency (and its siblings) should also identify spending cuts that would not affect train service, such as reducing or eliminating retiree health benefits.

California's local government industrial complex has learned how to work the political system to keep resources flowing even when clients stop coming through the door. The result is an inefficient public sector that is better at lobbying state legislators and crafting ballot initiatives than serving the public. Without reforms such as a ban on using tax-derived revenues for lobbying, the disconnect between funds allocated and services provided will continue to grow.

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