EDUNOMICS LAB The Study of Education Finance

Restructuring districts for a new financial landscape

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The Financial Landscape

Coming down the pike….

1. Current delivery models are unsustainable.

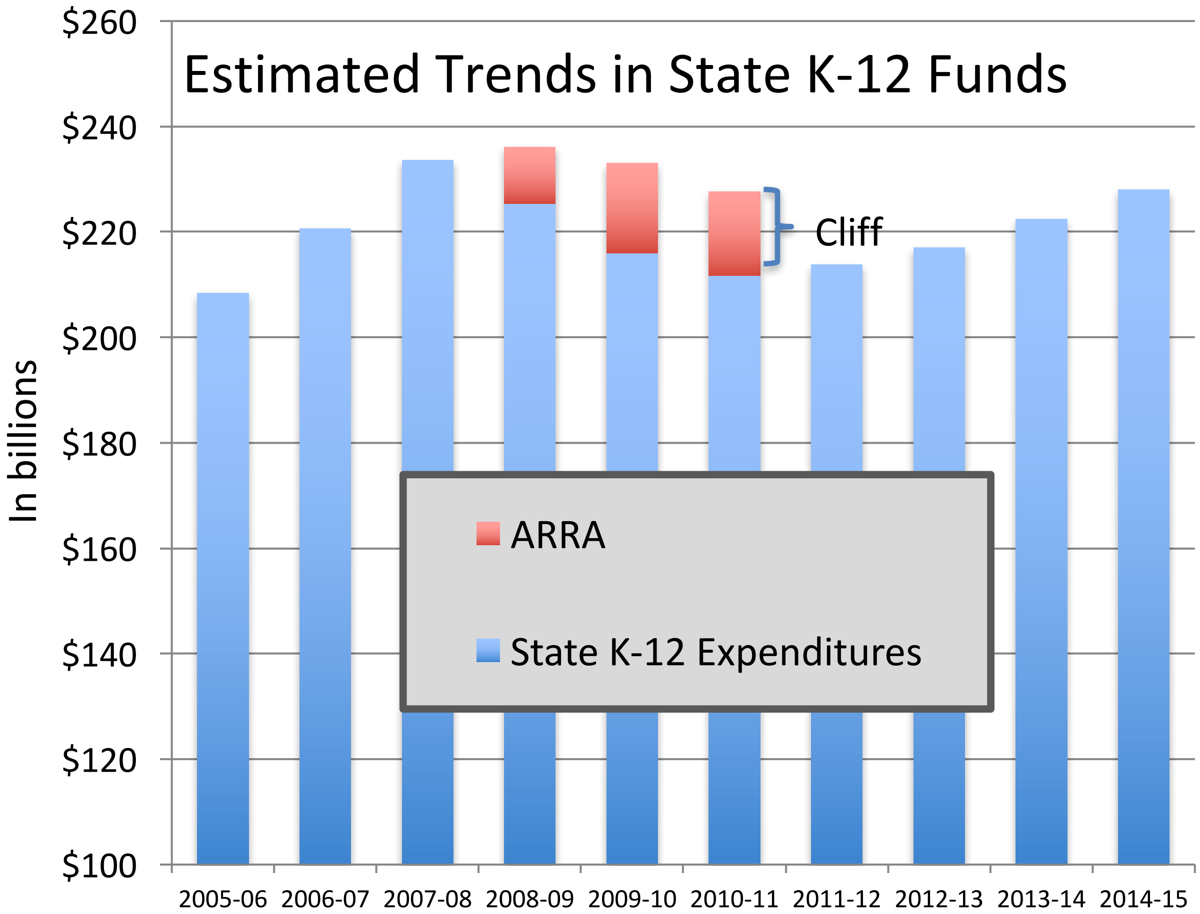
   Salaries/benefits rise faster than likely revenues.

2. Enrollment shifts demand more nimble systems.

   Demographic changes, more charters, etc.

3. Tech-based innovations will dramatically affect delivery models, redefining staff roles, etc.

What's happening to revenues



State funds: Many states continue to see shortfalls through 2011-12 with slower growth in following years.

In some states (e.g. WA) local funds will increase; in others, local funds will drop (e.g. NJ). No way to capture this yet.

Federal: ARRA expires 2010-11. Viability of new ed jobs bill uncertain.

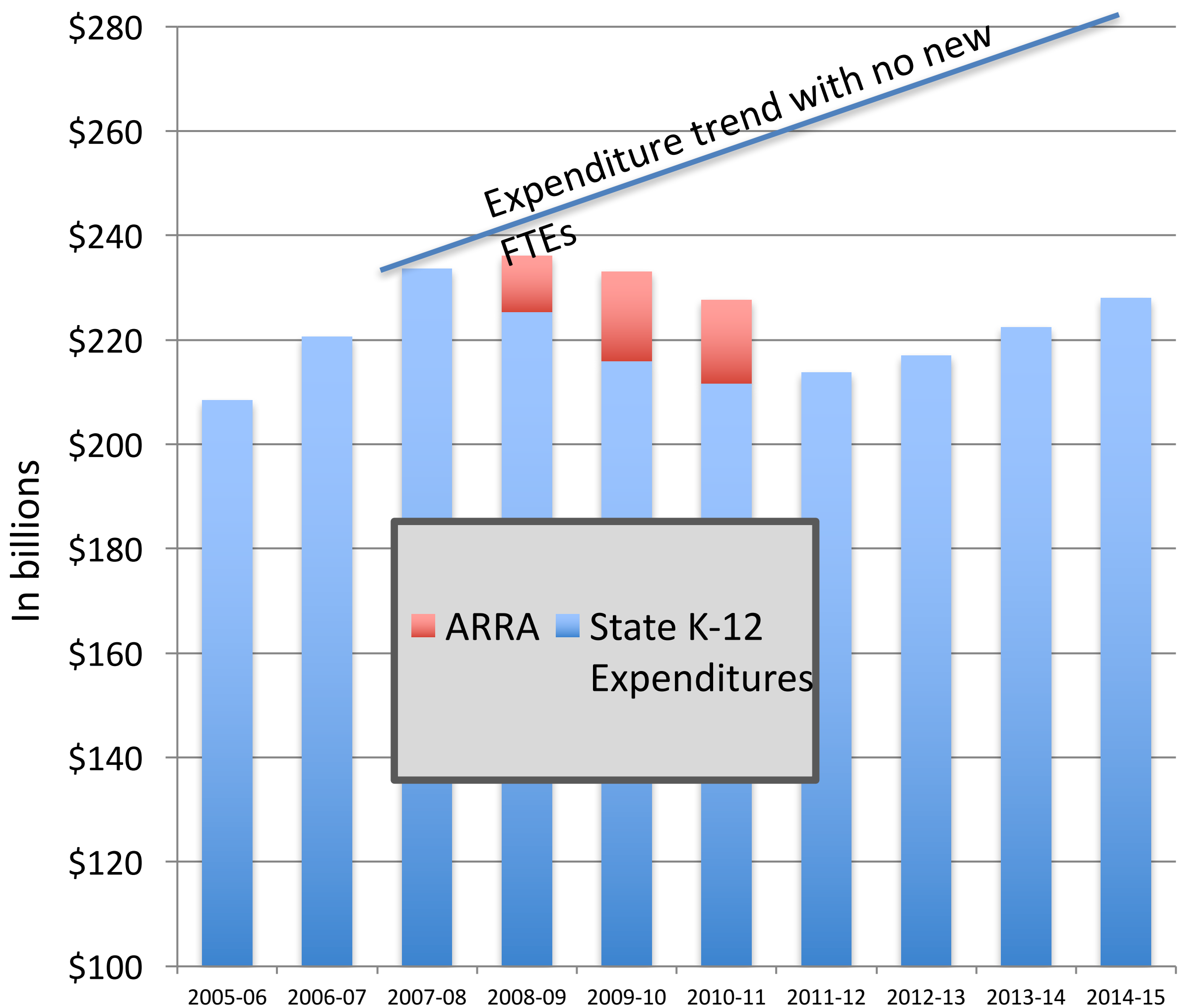
Built-in cost escalators drive up expenditures creating gaps

- Salaries rise 3.16% with step/column changes plus negotiated COLAs (avg 2-4%) for returning teachers.*

- Attrition is now very low (<3%) bringing few savings

- Benefits costs rising 6% or more per year.

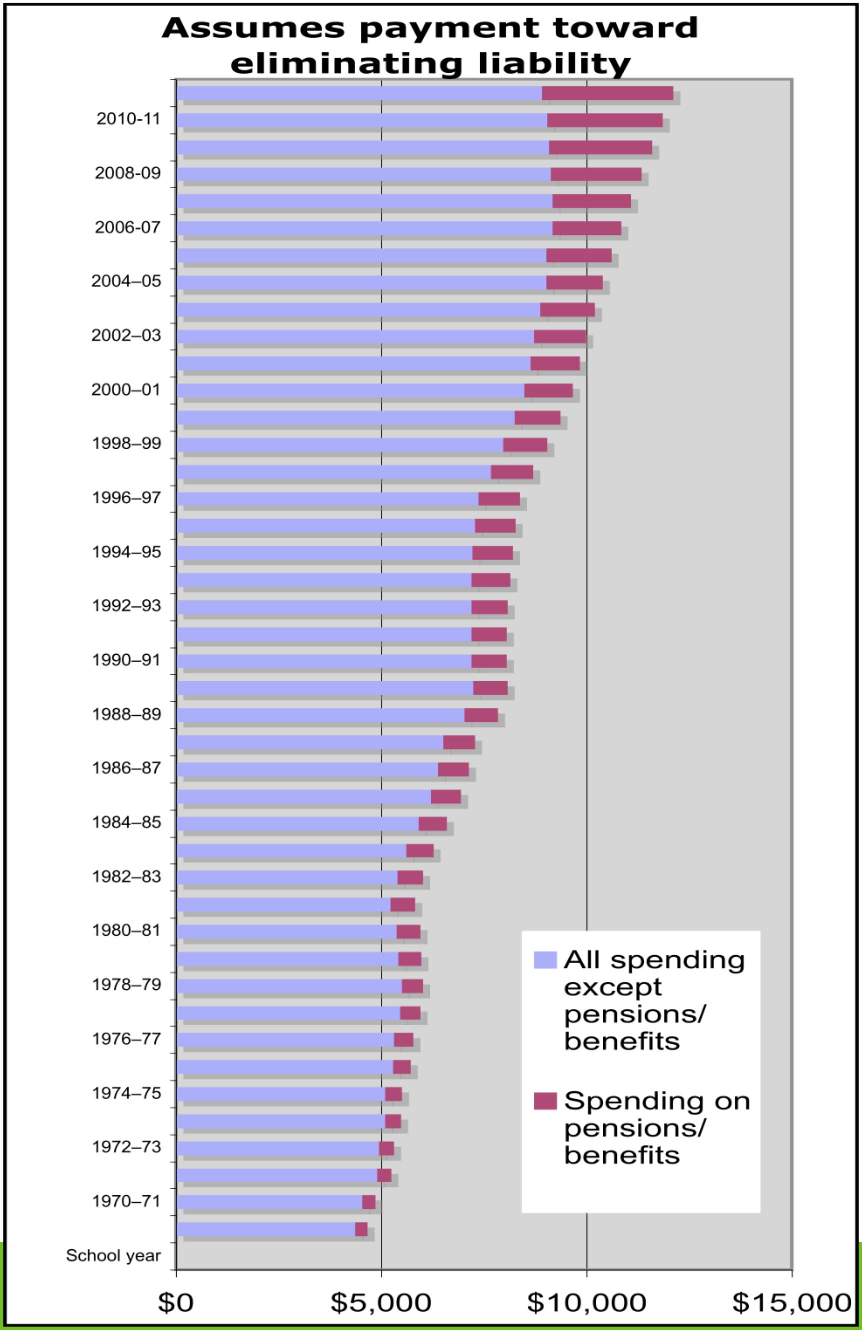
=> Flat (or less steep) revenue increases still leave gaps



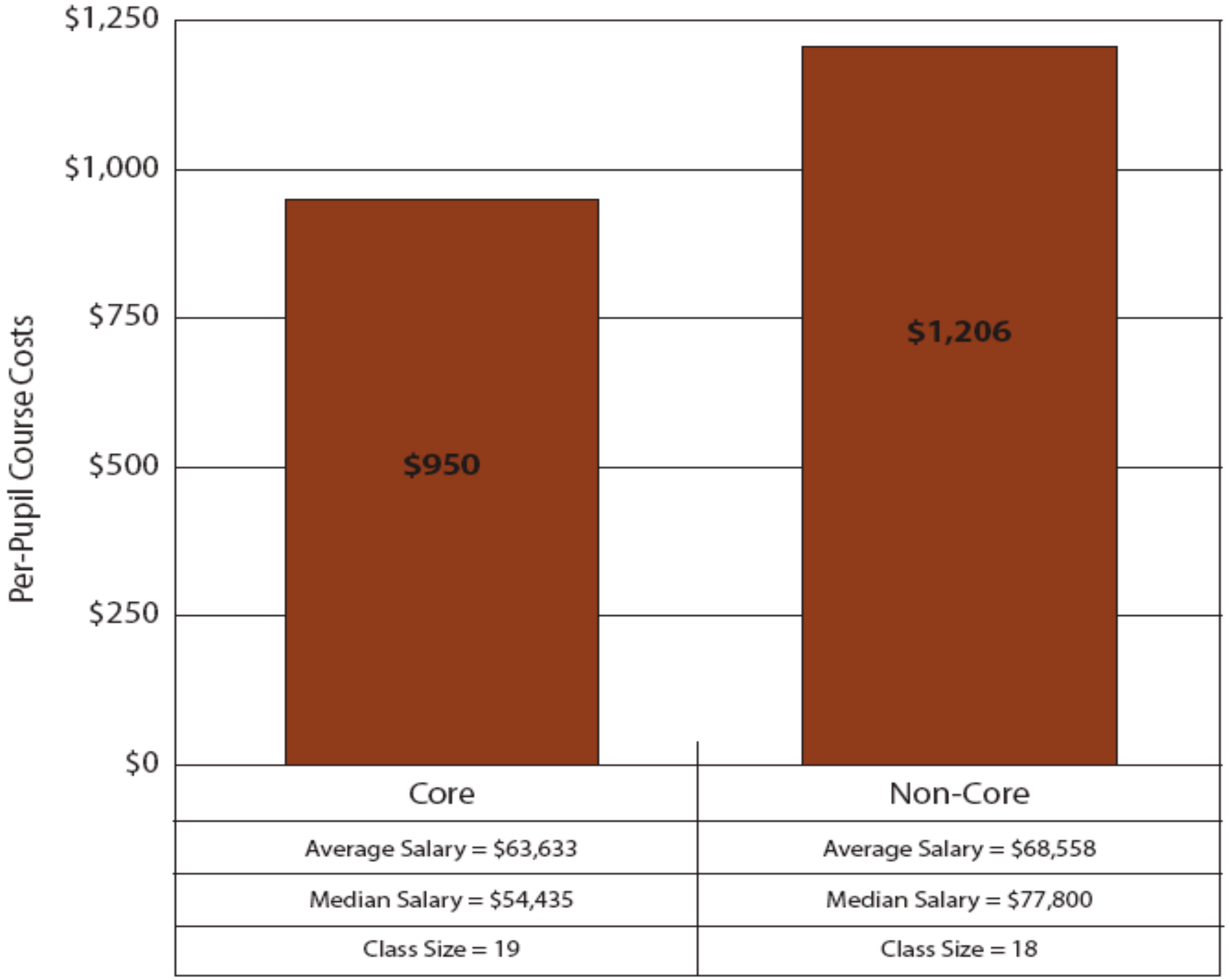
** Continuing teachers in Seattle Schools now earn an average of 12-15% more than they did in 2008.*

Structural deficit: Benefits consume an increasing share of expenditures

- Benefit costs jumped from 25% of salaries in 1999 to 32% in 2006.
- If trends continue, benefits will grow from 18% of total PPE in 2006 to 22% of PPE in 2012 (assuming no progress in closing liability) or 36% if adopting typical liability closing plan.



Technology will change the cost of services
E.g. Per-Pupil Costs by Course Type



Optimal district size?

Optimal district size doesn’t exist. Scale economies in districts are complex.

Enrollment shifts DO NOT necessitate district consolidations. District consolidations should be a decision driven by governance, not district size.

Restructuring districts for financial sustainability

Two options:

1. Don’t plan for it = slow steady decline in services.
2. Plan for it = to create more nimble, financially sustainable districts with redesigned services, redefined roles, stronger outcomes for students.

Don’t plan for it

- Under-enrolled, over-staffed schools.
- Reduced electives, services
- Oversized back-office services
- Excess underutilized facilities.
- Steady hiring freezes
- Year after year reactionary behaviors to declining revenues.
  - Minneapolis, Detroit.

Plan for it

- Drive district allocations to schools on an enrollment basis. Give schools increased flexibility in applying funds.
- Schools close when no longer viable and districts earns revenue on shuttered properties.
- Central services funded on per student basis, and when feasible, districts share services or purchase on needs basis (pay as you go).
- Downsizing can enable a district to focus on quality, not quantity.
- Staff roles redefined, often at school level.
  - Milwaukee, Denver, Houston, military bases

Opportunity

Identify a reason to start the planning, to put area districts on the front end of financial restructuring.

Increased chartering can be that reason.

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Edunomics Lab is a university-based research center dedicated to exploring and modeling complex education fiscal decisions and growing the capacity of education leaders on the topic of education finance. The Edunomics Lab is affiliated with McCourt School of Public Policy at Georgetown University.

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