Dear districts: These are the glory days. Are you ready for tomorrow's financial pain?

Getty Images/Gearstd

Marguerite Roza | January 30, 2019

Psst, districts! We've seen this script before.

Back in 2008, it's a fair bet that most school systems didn't know they were in a financial boom before the Great Recession unleashed the bust, filling subsequent years with program cuts, furloughs, school closures, and fights about seniority-based layoffs. Today, signs suggest we're once again at a peak, with a likely financial stumble headed our way.

Just like the years leading up to 2008, the last few years have yielded stronger growth in funds for schooling. And just like in 2008, there are signs of trouble ahead. For districts, a fiscal downturn can trigger the equivalent of a debilitating migraine: Pain comes from every direction and little seems to quell it.

While we can't predict how an economic downturn will affect every district, we *can* anticipate some big-picture trends, and in doing so potentially tweak the script.

State revenues will likely stumble: This will hurt districts in some states more than others

Where districts may have been benefitting from a higher growth rate in state revenues in the last two years, that trend is likely to wane as tax revenues slip in a downturn. Some states, like Wyoming, are considered more prepared, with stronger reserves and/or more stable revenues and expenses. But Moody's designates seventeen states, including big-population states like Pennsylvania, Virginia, and New Jersey as "significantly unprepared" for even a moderate recession.

Changes in state funding formulas have made districts in twenty-one states more reliant on state funding (versus funding from local sources) than a decade ago, according to analysis of U.S. Census data. That means a dip in state revenues will impact a bigger share of local districts' pie. (Local funding tends to hold steadier in recession.) And districts in some states, like Arkansas, Michigan, Kansas, and Wisconsin, are considered both unprepared for a downturn and more beholden to state revenues than in the last recession.

District obligations climb when the economy takes a hit

As counterintuitive as it seems, costs go up during an economic downturn. That's because when the private sector curbs hiring, fewer teachers leave their districts to pursue jobs in the private sector. That means teacher shortages disappear, more people apply for teaching jobs, and districts can be more selective in hiring. These changes are desirable for learning, but costly for the district balance sheet. Typical teacher turnover rates involve teachers with some experience being replaced by newbies at the bottom of the salary scale. But when that turnover drops, the average teacher experience level increases—and with it, average salaries, even without raises. Pension obligations also grow, as more teachers shelter in place and accrue more seniority, triggering the next tier of pension benefits. Note, too, that a stock market drop means the pension fund isn't yielding expected returns and may prompt calls for more public investment.

In education, labor *feels* like a fixed cost, and that makes it tough to cut spending

Labor typically makes up a district's biggest expense. While most sectors don't define labor as a fixed cost, any district trying to make cuts finds it's nearly impossible to reduce staff, either politically or contractually. Announce a plan to cut librarians or the Latin teacher and it can trigger marches, online petitions, and sit-ins. It isn't just because education is a public sector enterprise involving collective bargaining or the assumption that a teaching job is for life. It's also that schooling is an incredibly human endeavor in which people matter a lot. Parents, students, and school staff form important relationships. Some staff play more roles than their title suggests: An amazing recess monitor may be what's kept discipline rates low at one school, or a theater teacher may be what's kept a generation of teens from dropping out. These school-level human factors don't show up in a financial ledger and may foil a seemingly thoughtful plan to shrink staffing.

It doesn't take much to destabilize a district

My Edunomics Lab colleagues and I analyzed spending of 140 mid-size and large districts with from 2000 to 2014. We concluded that districts don't follow a common playbook when it comes to cutting costs. Budget changes resulting from relatively minor revenue adjustments took the form of a hiring freeze that affected staff types unevenly, and some shaving of non-labor expenses, like contracts and travel. But as little as a 0.75 percent drop in total revenue seemed to tip districts into more financial chaos. In these cases, the cuts were all over the map, with no consistency in which spending categories took the biggest hit. Some cut benefits or extracurriculars, others reduced support staff or raised core class sizes.

A deeper dive into media reports in some districts indicated that while budget-cutting districts would propose one set of reductions, what ultimately got cut was often something else entirely. The end result was often a reduction in expenses that garnered the least support, be it teacher aides, the theater program, or alternative school—possibly because the affected staff were less organized, the families impacted were less vocal, or the program didn't have a loyalist on the board. The takeaway? The entire process can be reactionary. Political. And decidedly not strategic.

But districts have a chance to be strategic *now* while the good times still roll by preparing for the downturn. Below are some ideas that may help districts rewrite the script when revenues stumble.

Reduce recurring costs and resist more hiring

Districts can view current staff turnovers as an opportunity to stash more in reserves, use stipends to boost the pay for current staff to pick up some of the load, or issue a service contract. Reducing the overall staff count results in fewer dollars tied up in benefits and more dollars available to retain existing staff in a downturn.

But this requires districts to look beyond the current school year and see financial scarcity ahead. Evidence suggests that when they do, leaders make more cautious choices. After California districts were told they would need to boost their payments over the next few years to the state pension system, our research found districts reduced their hiring rate, amassed more in reserves, and invested more in contracts. After a gloomy forecast in Chicago, some principals worked to roll over funds to cushion their schools from future-year cuts.

Shift budget choices to schools, allowing them to protect what matters most

Many larger districts, from New York City and Baltimore to Houston and Atlanta, now deliver dollars, not staff counts, to schools via a weighted student formula and allow the principals to make tradeoffs that work for their buildings. If School A wants to keep its beloved Latin teacher, it might, for example, choose not to replace a vacant vice principal position. For this to work, districts must give schools flexibility to leverage their staff to best meet their students' needs—and thoughtfully cut corners in ways that their communities can accept.

Cuts delivered by district fiat are likely to get more blowback than cuts made by a local school in collaboration with its community. Which brings us to the next section on trust.

Build trust around money, and engage community in tradeoffs

Money matters. But recent messaging research tells us words matter too. Districts can build trust with their staff and communities by explaining finances in terms of *students*, versus in terms of “deficits,” “efficiencies,” or “projections.” Trust is also higher when leaders share the numbers considered in tradeoffs: “Raising class size by one frees up $2,000 per teacher that we can use to raise pay,” for example. And it’s higher when the public is invited to participate in budgeting, such as through crowd-sourcing priorities for spending or cuts. Finally, because parents and teachers trust their principals more than their district, why not do more to engage principals in tradeoffs and encourage principals to communicate them? Hard-earned trust can help steady the system as it navigates a recessionary wave.

***

Let’s not pretend that any of these steps will remove all pain from a revenue crunch. But they could help insulate school systems from needless churn, better equipping them to make it through the inevitable downturn ahead without extinguishing public good will. That seems like a budget script rewrite worth considering.

Marguerite Roza, Ph.D., is Director of the Edunomics Lab at Georgetown University and a Research Professor at Georgetown’s McCourt School of Public Policy.