What will the financial turmoil mean for public education?

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30-minute webinar is on the record.
Q&A following is off the record unless otherwise stated.

Big Picture

2019-2020

District Finances Stable

Minor financial impact, if any, with some districts underspending

Districts are underspending on:
-- PD, contracts
-- Substitutes, stipends
-- Banquets, utilities,
-- Transportation, etc.

- Economy tumbles
- Sales tax revenues drop
- States tap reserves
- Widespread job loss (outside education)
- Teacher retention increases

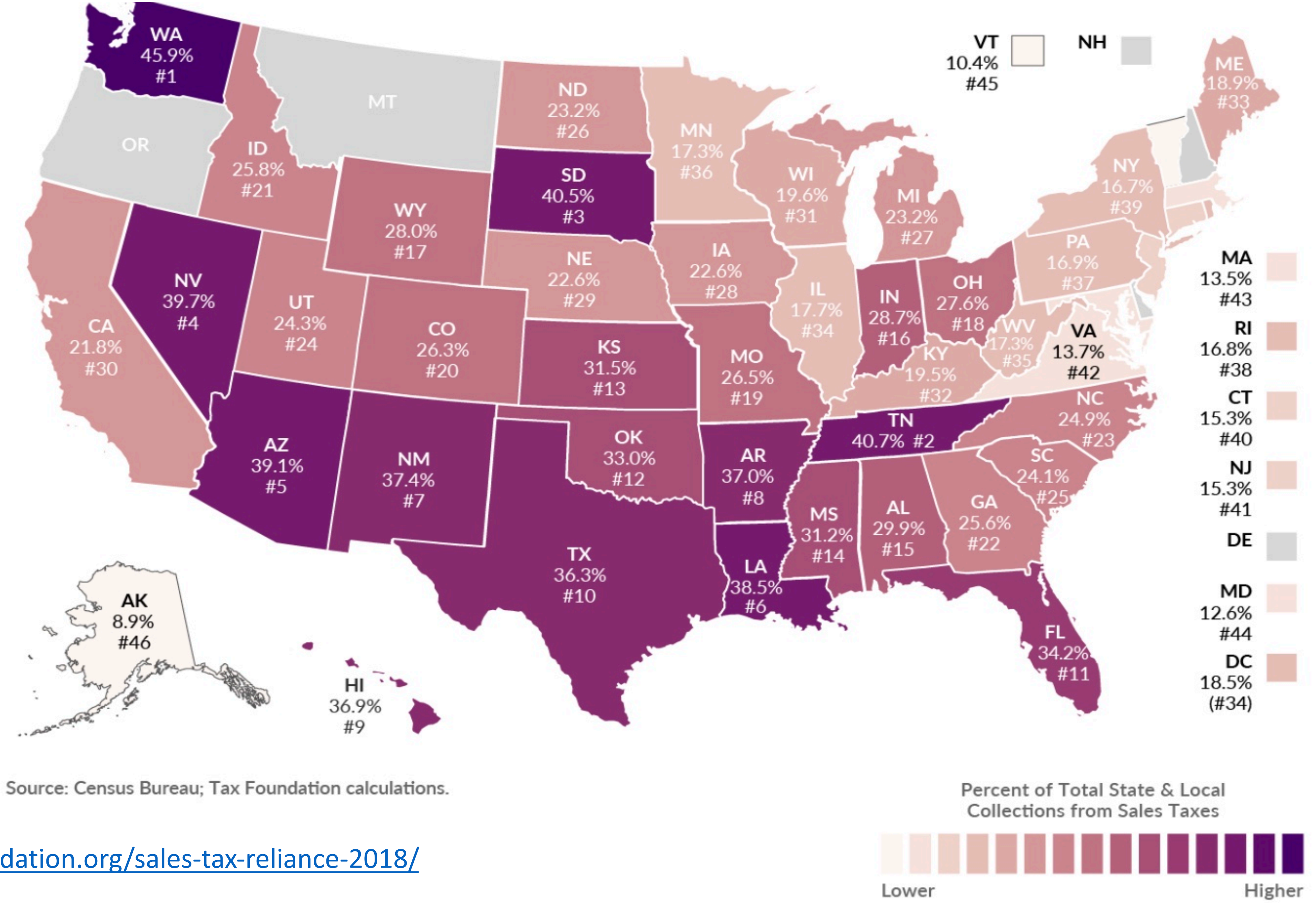
2020-2021

Major Financial Upheaval

- **States have fewer funds for districts (and competing priorities)** Revenues ↓
- **Reduced teacher turnover drives up salary costs (experienced teachers aren't replaced by novices)** Expenses ↑
- More students living in poverty with greater needs
- Pension funds see greater gaps
- Enrollments may drift up due to exits from private schools

States differ in their reliance on sales taxes

Sales taxes are the most immediately vulnerable to economic downturns.



Tax Foundation, https://taxfoundation.org/sales-tax-reliance-2018/

Photo of SeaTac airport on 3/20 captures the extent to which the economy is plummeting (hurting state budgets).

Starting next fiscal year, constrained state funds will have to compete with other sectors including:

-- Emergency public health

-- Medicaid

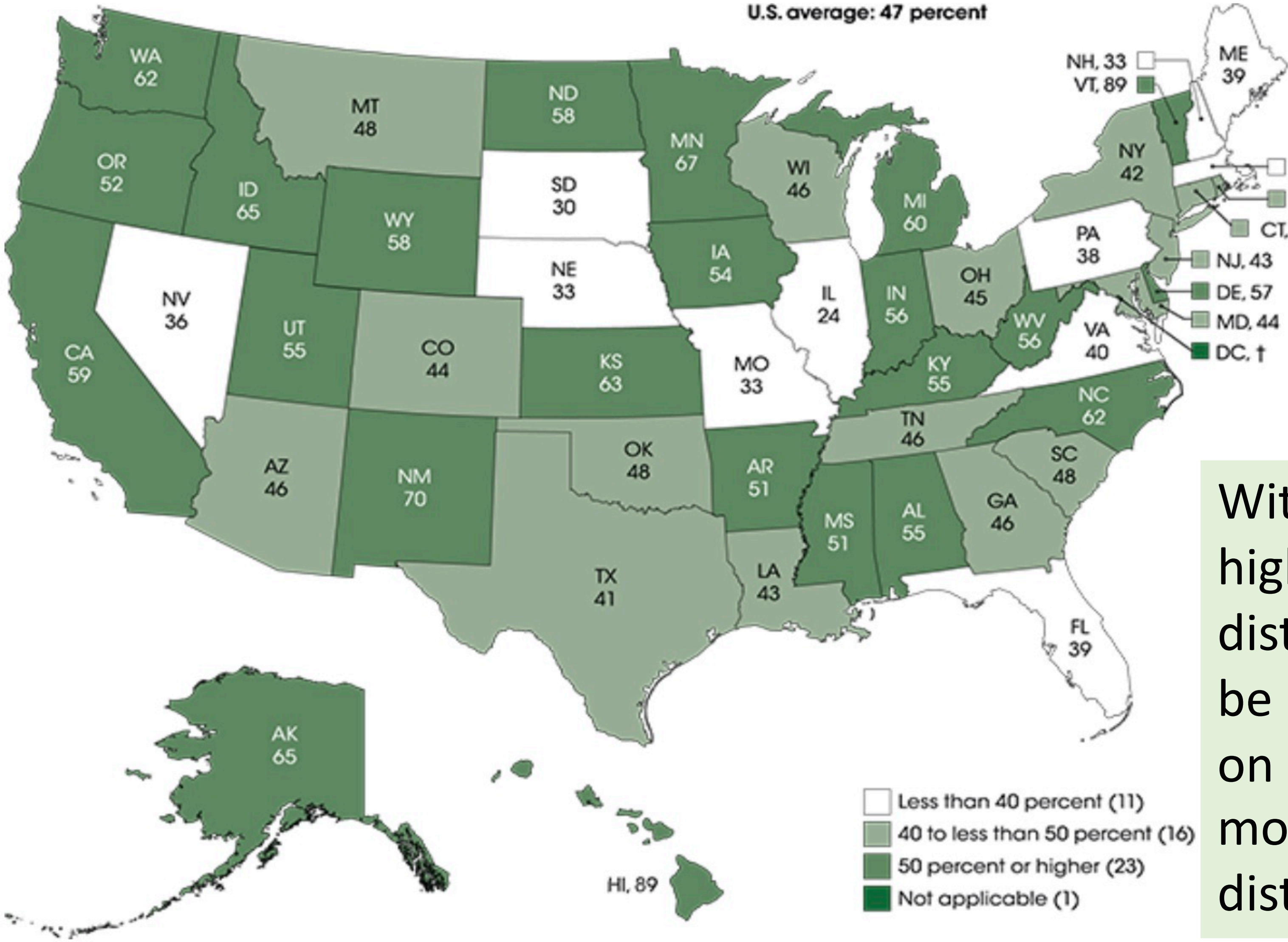
-- Transportation

-- Higher ed

States differ on portion of district funds that come from the state

Reduced state revenues will hurt districts in states with greater reliance on state funding

Local funds tend to be driven by property taxes, which tend to be more stable in an economic downturn.



Within states, higher-poverty districts tend to be more reliant on state $ than more affluent districts

NCES, The Condition of Education, Data from 2015-16. https://nces.ed.gov/programs/coe/indicator_cma.asp

Whammy #2: District obligations climb faster in an economic downturn

Widespread layoffs. Industries stop hiring. Some spouses unemployed.

→

Current teachers stay in their current positions (teacher attrition drops)

→

More teachers earn another year of step and column raises (4-7%) (and COLAs if already negotiated)

→

District's payroll goes up faster than normal with little way to absorb it

Roza, Simpkins, and Simburg (2012). What happens to teacher salaries during a recession?
https://edunomicslab.org/2012/12/01/happens-teacher-salaries-recession/

Doesn't take much to destabilize district finances

- Districts feel constrained even with 3-4% budget increases
  - ✓ 2020-2021 will likely require deeper budget cuts with active cutting
- Labor feels like fixed costs
  - ✓ Reduction in force (RIF) is traumatic, exhausting for central leaders

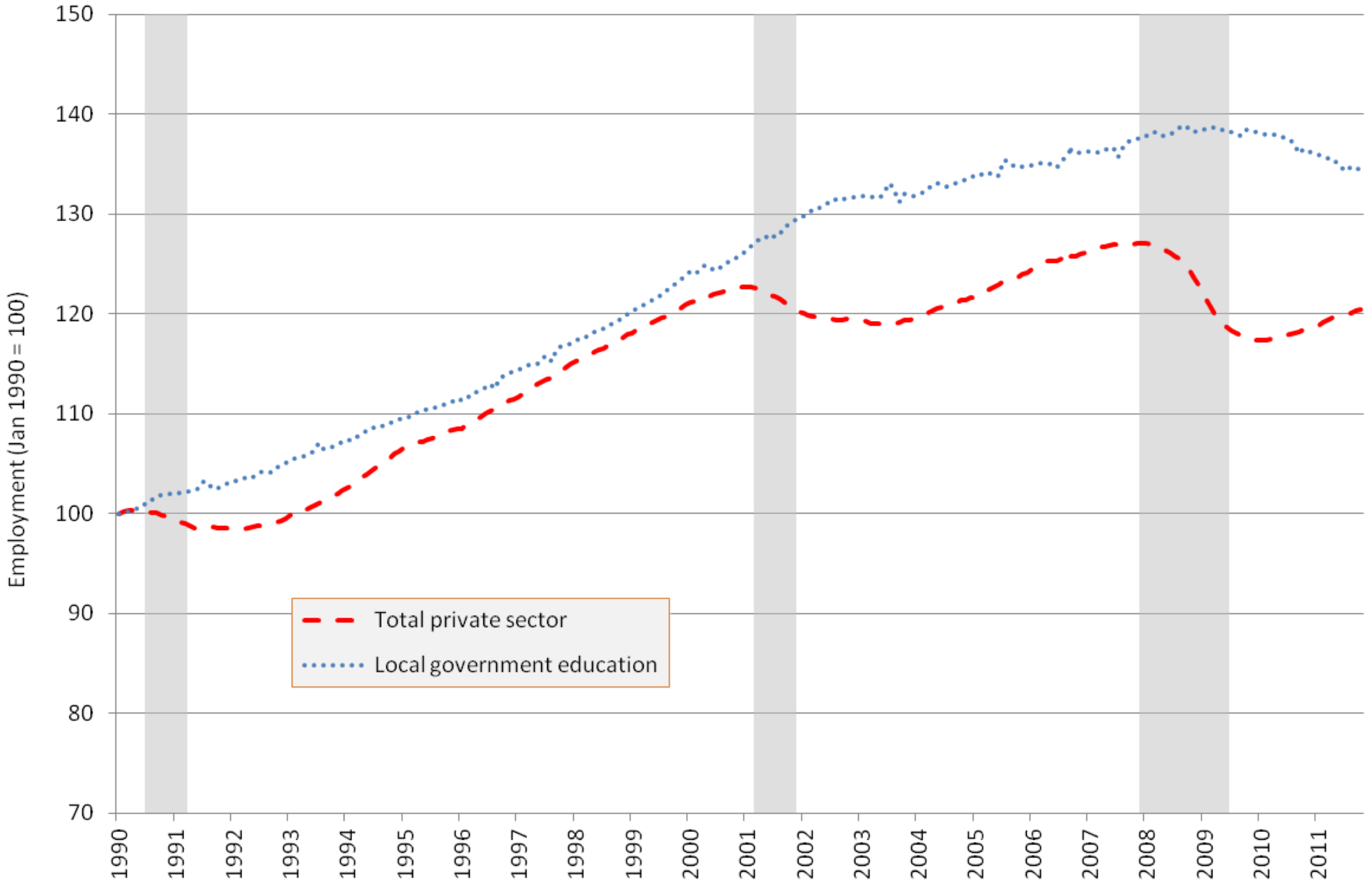
Exacerbated effects on high-poverty schools

- Layoffs affect junior teachers
- Unfilled positions remain empty
- Student needs are increasing as parents lose their jobs

Disproportionately affecting high-poverty schools

During a recession, districts try to hold on to staff, and it takes years of absorbing cuts before hiring/raises start again.

In contrast, private sector sheds labor but responds more quickly when recession is over.

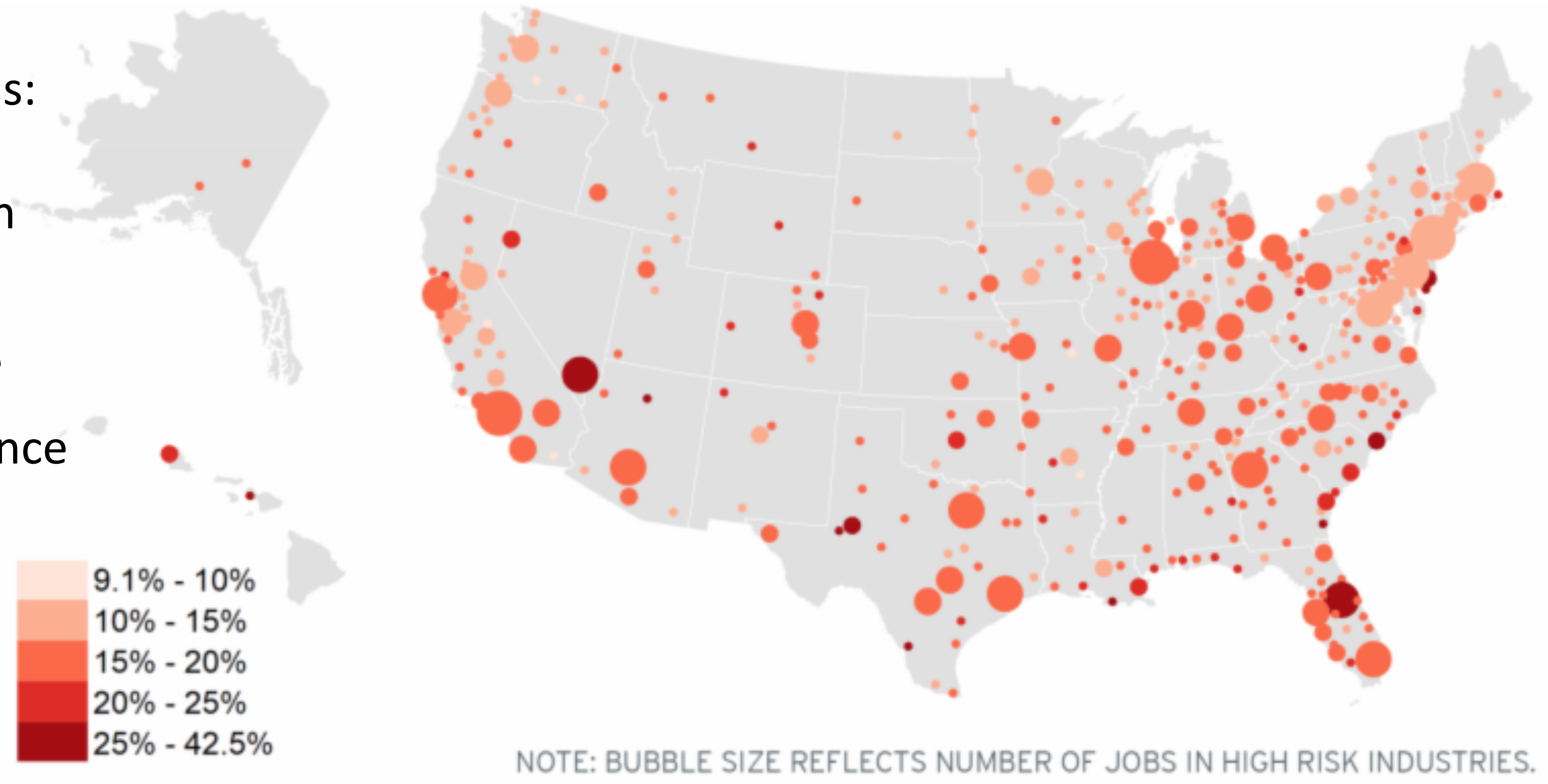


Author's unpublished analysis of BLS data.

Share of metro employment in high-risk industries 2019

More layoffs means:

- More students in poverty, trauma
- More transience
- Uneven attendance



Muro, Maxim, and Whiton (2020). The places a COVID-19 recession will likely hit hardest. Brookings.

What can districts do to "flatten their curve" (reduce the funding cliff)

In the short term:

- Protect reserves
- Freeze hiring now!
- Refrain from making promotions (VPs, lead teachers, etc.)
- Reduce any recurring costs
- Communicate (!)

Looking ahead:

- Examine benefits
- Seek per pupil cost reductions to every central dept. Reduce HR/PD more since not hiring
- Shift budgeting choices to schools and permit tradeoffs to protect what schools value
- Leverage attrition. Avoid one-size-fits-all staffing cuts

Common themes during cutting:

- Choices become political and hinge on what central leaders can get done
- Cutting is consuming. No other reforms take place (e.g., preschool investments, SEL, etc.)

Trust in districts declines during budget cuts. Communication helps.

"Our principals tell us…"

Be honest. "Our district will have fewer dollars to spend next year and we need to make choices to protect what matters most to our students."

"We want to hear from all involved. Please communicate directly with your principals and we will be in regular communication with them."

"The district has $XYZ dollars per pupil. If we exempt one school or department from cuts, we'll have to cut more from another."

What can states do?

- Share forecasts early and often!
- Encourage districts to carry over funds from 2019-20 to 2020-21
- Pursue more flexibility with state funding
- Remove delivery requirements (class size caps, staffing prescriptions, etc.)
- Provide cover to re-open contracts
- Tackle pension obligations (e.g., require that salary raises are non-pensionable for now*)

*Based on forthcoming paper. Contact author for analysis presented at AEFP, March 2020

Q & A

Are there ways to leverage the moment?

How could a federal stimulus help?

Other?

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