What will the financial turmoil mean for public education?

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2019-2020
District Finances Stable

Minor financial impact, if any, with some districts underspending

- 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) Revenue ↓
- Reduced teacher turnover drives up salary costs (experienced teachers aren’t replaced by novices) Expense ↑
- More students living in poverty with greater needs
- Pension funds see greater gaps
- Enrollments may drift up due to exits from private schools

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

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Sales taxes are the most immediately vulnerable to economic downturns.

Source: Census Bureau; Tax Foundation calculations.

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.

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

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

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/

CHAT: Does your district or state have raises (or COLAs) planned for FY20-21?

Fewer teachers leave DPS
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

Exacerbated effects on high-poverty schools

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

What RIF policies are in place?

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.
Historically, districts budget as though insulated from economic shifts so when a contraction happens many are underprepared.

These commitments/practices inhibit districts from being nimble in an economic downturn:

1. Commitments for multi-year pay raises
2. Step/column pay structure
3. One-sized fits all school staffing
4. Seniority-based layoff policies
5. Inflexible pension/retirement commitments
Typical stages of hurried **DISTRICT** cuts:

**Freeze**
- Freeze hiring, travel, pro-cards
- Permit contracts to expire
- Postpone maintenance
- Delay payments
- Offer early retirements

**Trim from the top**
- Trim contracts, payments to community partners
- Eliminate PD days, prep time
- Cut central administrative positions
- Squeeze supplies and any non-labor expenses
- Consolidate dept.s

**Negotiate**
- Propose delays in salary raises
- Changes in benefits
- Reduce days/furloughs (?)

**Labor reduction**
- Depending on success above
- Larger staff layoffs: elective staff, librarians, academic coaches, core teachers.
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
- Revisit any planned raises
- Communicate (!)

**Looking ahead:**
- Examine benefits (including OPEB)
- Seek per pupil cost reductions to every central dept. Reduce HR/PD more since not hiring
- Encourage schools to leverage attrition
- Communicate choices in terms of tradeoffs
- Avoid one-size-fits-all cuts
- Close under-enrolled schools?
- Consider early retirement options?
- Make near term raises non-pensionable

Reducing the COLA means we lay off 72 fewer teachers.
Need analysts to run your numbers?
Just ask!
• Health care cost per pupil?
• How many FTE saved if forego a COLA?
• Implications of RIF on high needs schools?
• Cost of under-enrolled schools?
• Savings associated with early retirement?
• Cost pp of central services?

Per Pupil Health Care Cost Comparison FY 2016/17

- Los Angeles Unified, $1,968
- San Diego Unified, $1,881
- Oakland Unified, $1,708
- San Jose Unified, $1,568
- Long Beach Unified, $1,561
- San Francisco Unified, $1,519

https://boe.lausd.net/sites/default/files/HealthCareUpdateAddressingtheHardChoices.pdf
Trust in districts declines during budget cuts. Communication helps.

“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 the CARES Act means for K-12

Education Stabilization Fund: $30.75B

- $13.5B total = ~$270 PPE
- 93% Title I = ~2% total PPE

Elem. & Sec. School Emergency Relief Fund (ESSERF)
SEAs must apply for funds

- 90% allocated to LEAs via Title I formula
  - Each LEA gets ~ an 84% increase in Title I (LEAs w/no Title I get none)
  - Flexible $ for LEAs (need not follow Title I rules)
- 9.5% for SEA emergency fund discretion
- SEAs keep .5% for admin

Governor’s Emergency Ed Relief Fund (GEER)

- Gov. must apply for funds
- Can be used to support K-12, HE, or Pre-K

Governors make decisions on these funds

...must “to the greatest extent practicable continue to pay its employees and contractors”
How can the money be used?

**Education Stabilization Fund: $30.75B**

- $13.5B total = ~$270 PPE
  - 93% Title I = ~2% total PPE

**Governor’s Emergency Ed Relief Fund (GEER)**

- $3B total (~$40 PPE)

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**Elem. & Sec. School Emergency Relief Fund (ESSERF)**

- CARES Act language places a big emphasis on ensuring high-needs students are protected.
- Title I formula is just a vehicle to move money to states/districts. LEAs need not distribute the funding to their Title I schools.
- “...must “to the greatest extent practicable continue to pay its employees and contractors”

**Application released earlier this week**

- Governors must focus funds on remote learning, tech access, new materials/platforms
- Funds must be awarded within one year
5 things that make this time different:

1. It is so sudden. Little time to absorb cuts.
2. 22M in other industries have already been furloughed/laid off. Districts aren’t hurt as much as many other industries.
3. More eyes on equity impacts of district/state budget cuts. This time, we’ll be able to assess impact of cuts by school.
4. We now know that districts are vulnerable to economic shifts.
5. Technology is seen as a solution, not a budget cut.
Q & A

Are there ways to leverage the moment?

How could a federal stimulus help?

Other?

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Remember:
Q&A is off the record unless otherwise stated