What will the financial turmoil mean for public education?

Marguerite Roza
Edunomics Lab, Georgetown University
MR1170@georgetown.edu
@MargueriteRoza

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

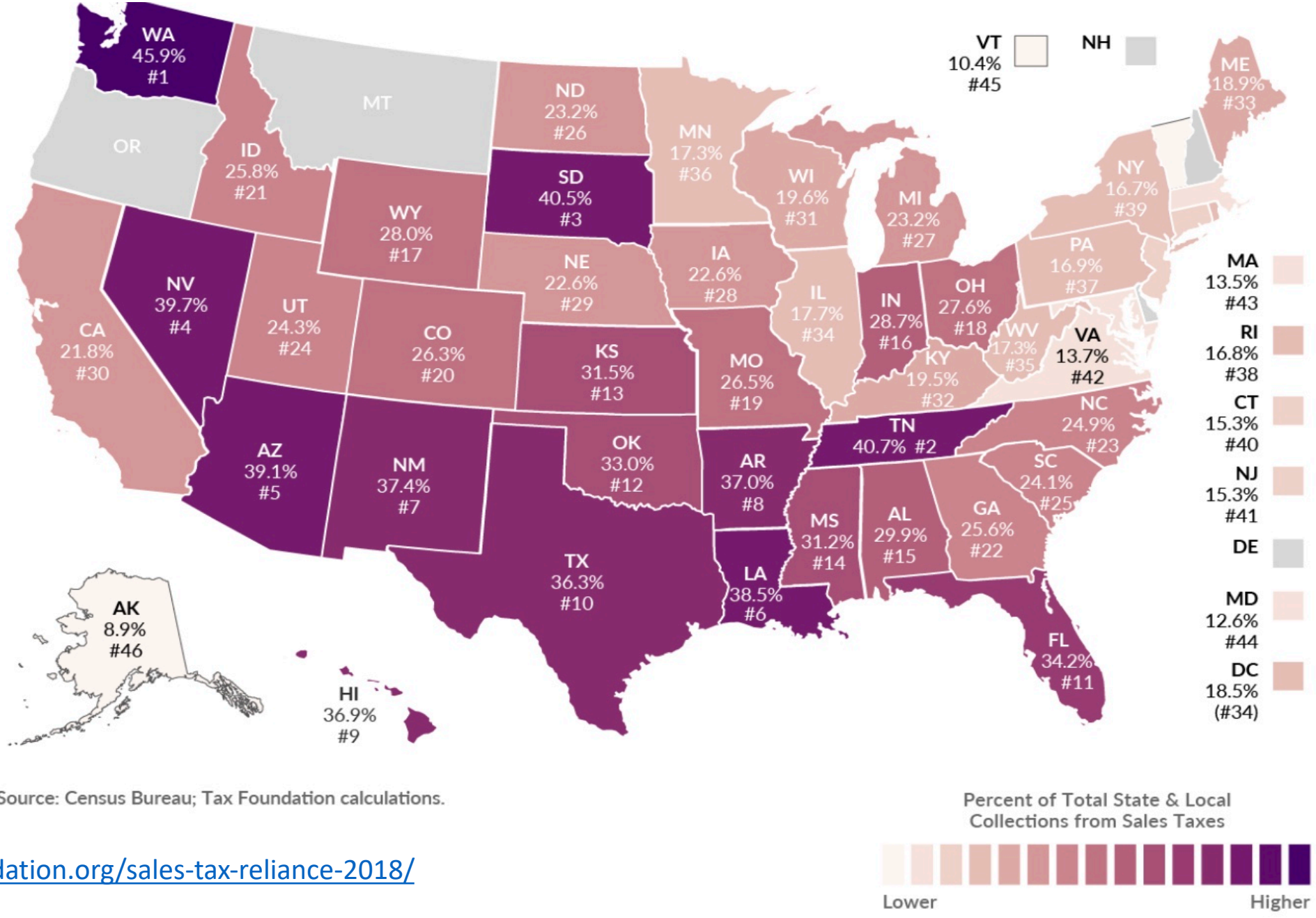
2020-2021

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.

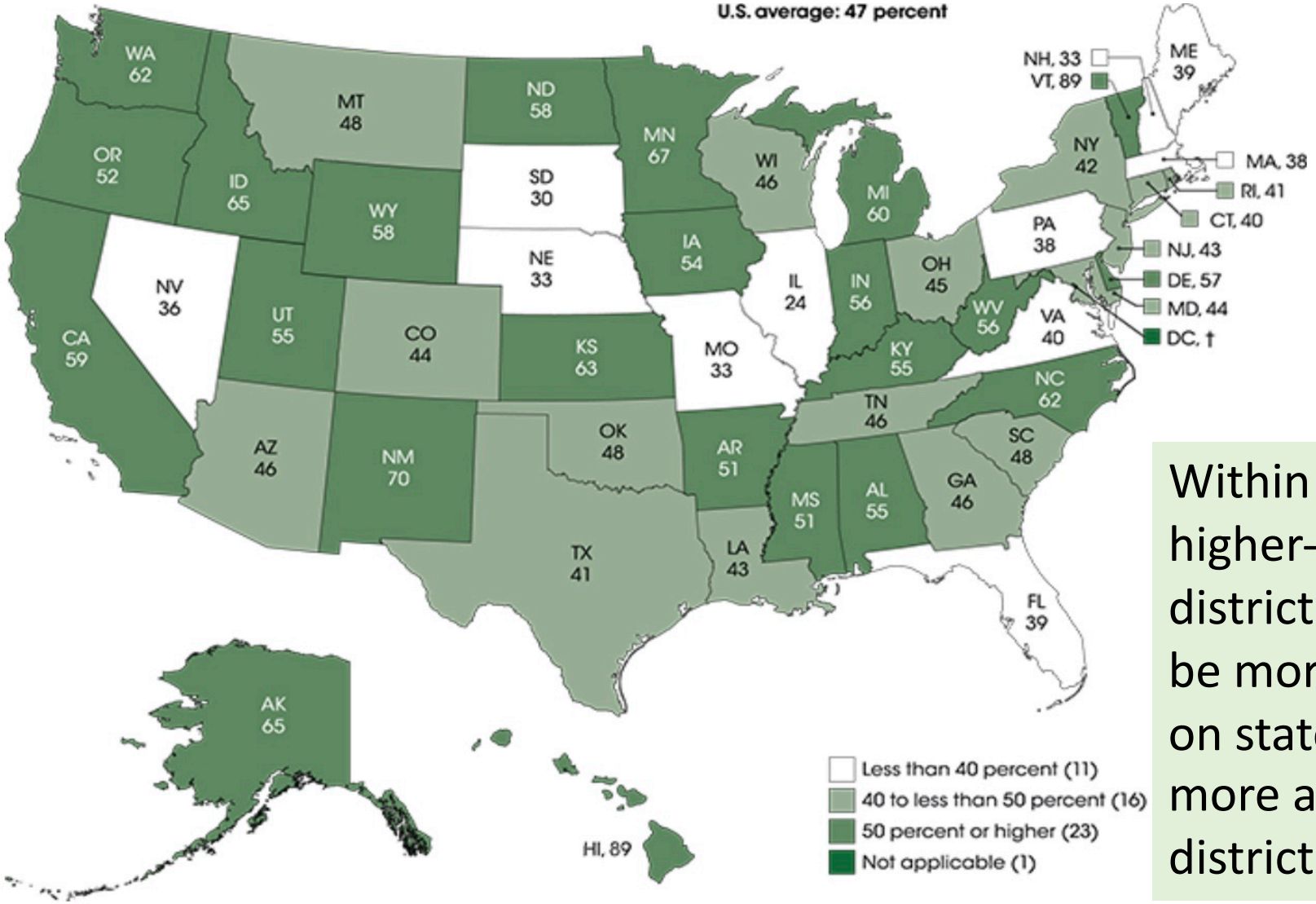


Tax Foundation, https://taxfoundation.org/sales-tax-reliance-2018/

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.

→

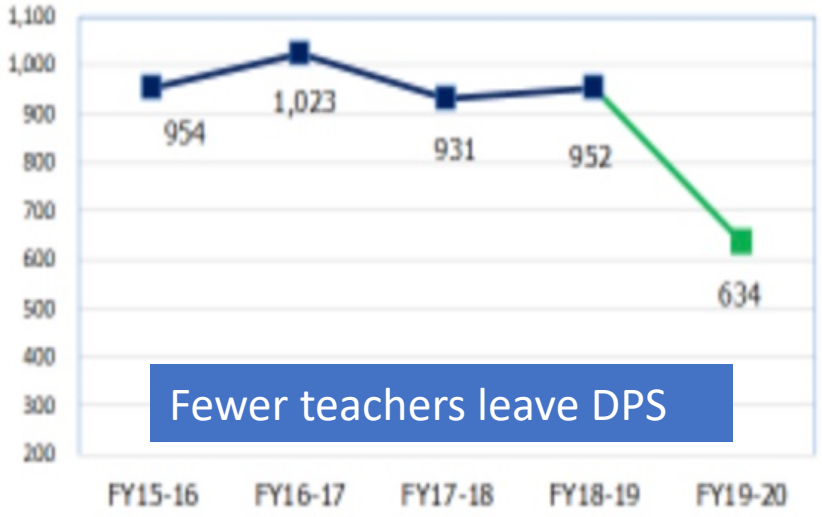
Current teachers stay in their current positions (teacher attrition drops)

→

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



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

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

What RIF policies are in place?

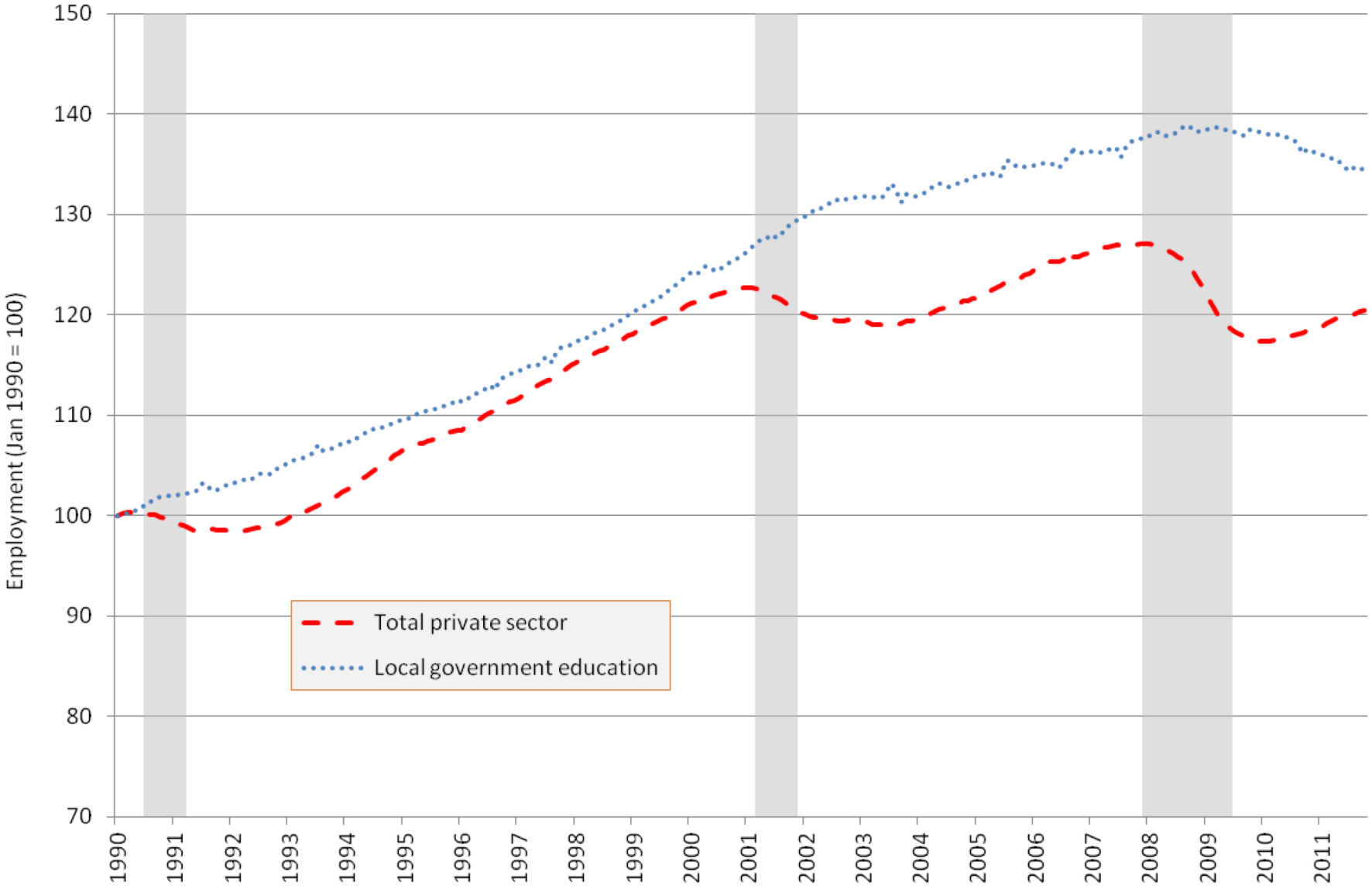
Exacerbated effects on high-poverty schools

- 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.

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:

Part 1 slides offer suggestions for districts

Freeze

- Freeze hiring, travel, pro-cards
- Permit contracts to expire
- Dip into reserves
- 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 (?)

↓

Depending on success above →

Labor reduction

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:

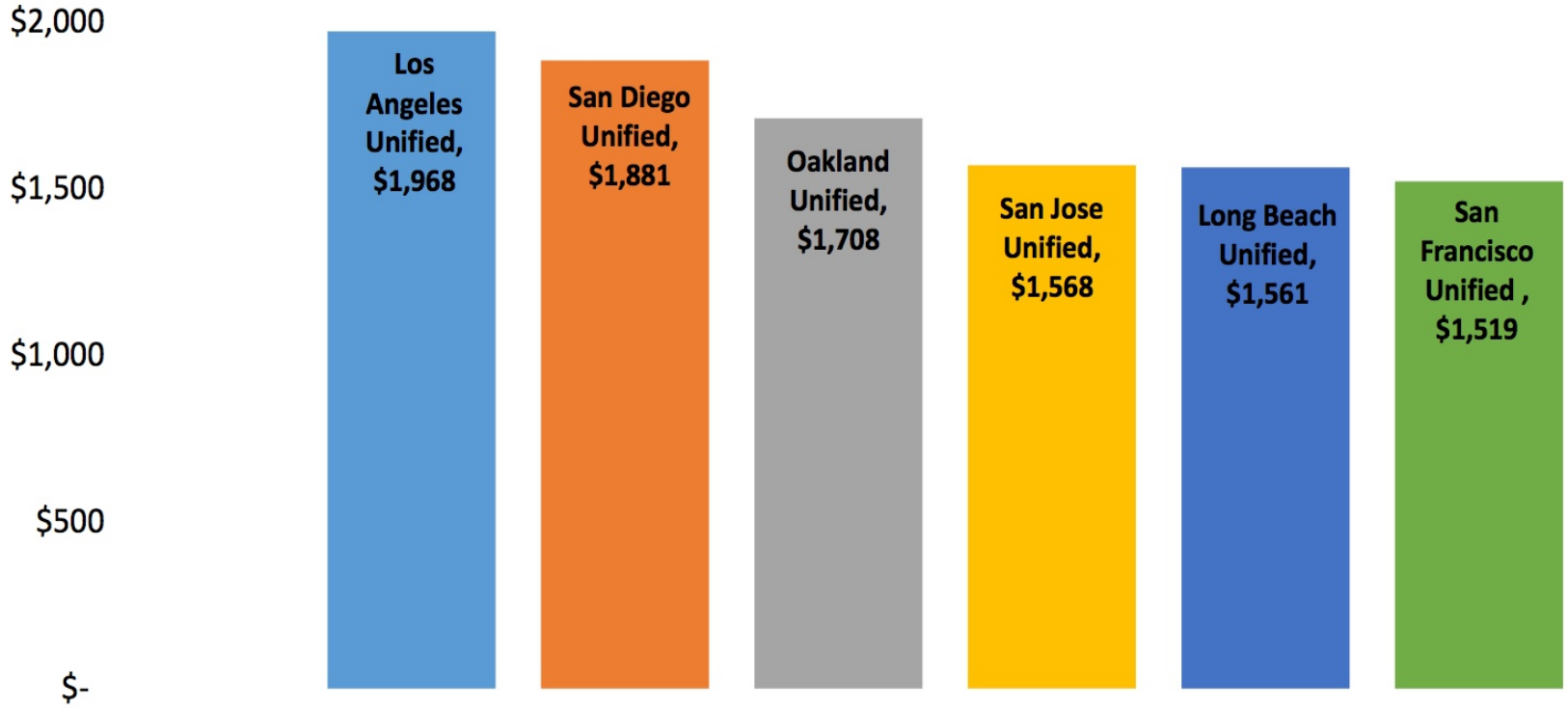
- Examine benefits (including OPEB)
- Seek per pupil cost reductions to every central dept. Reduce HR/PD more since not hiring
- Encourage schools to leverage attrition
- Communicate choices in terms of tradeoffs
- Avoid one-size-fits-all cuts
- Close under-enrolled schools?
- Consider early retirement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



Per Pupil Difference	$87	$260	$400	$407	$449
Impact to LAUSD's 500K enrollment	$43M	$130M	$200M	$203M	$224M

https://boe.lausd.net/sites/default/files/HealthCareUpdateAddressingtheHardChoices.pdf

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 the CARES Act means for K-12

Education Stabilization Fund: $30.75B

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

$3B total
~$40 PPE

…must "to the greatest extent practicable continue to pay its employees and contractors"

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 have decisions to make on how to distribute these funds

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

How can the money be used?

Education Stabilization Fund: $30.75B

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

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"

$3B total
(~$40 PPE)

Governor's Emergency Ed Relief Fund (GEER)

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