What the financial turmoil means for public education: Part 3

Updated financials, and state and district responses

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The fiscal impacts for K-12: TIMING IS EVERYTHING!

Economy falls. 41M unemployed.

Schools go online. Spending is steady.

CARES Act $270pp

States start seeing revenue impacts (1-2 month lag)

March

April

May

June

Many states begin to revise budget projections (and make plans to to rework state budgets)

Some states announce K-12 funding impacts

At some point, impacted districts begin to revise their 2020-21 budgets

Decisions re more federal funding for schools

Delays here could force deeper cuts later

Unfolding now (unevenly) in many states

Still yet to unfold
As sales taxes become clearer, more states revise revenue projections

Revenue shortfalls announced (FY21 and/or FY22) (as of mid-May)


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Fewer than half of states have warned districts of any K-12 revenue cuts.

- Detailed warnings (11) with magnitudes
- General cautions (13)
- No K-12 fiscal impacts announced (27)

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With less warning, districts will make hurried cuts:

**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:
  - Alter benefits
  - Salary adjustments
  - Reduce days/furloughs

Depending on success above

**Labor reduction**
Larger staff layoffs: elective staff, librarians, academic coaches, core teachers

**Early activity**
Lots of trimming
A few furloughs

We will be tracking and reporting on district choices in coming weeks

Gaps > 2-3% often require cuts to LABOR
How districts make cuts matters for students

Four mechanisms to achieve an equivalent reduction in labor costs:

A. All retirement costs shifted to teachers

B. Across-the-board salary reduction (say, 5%)  
   *Holds time constant, but reduces salary*

C. Across-the-board furloughs (say, 10 fewer days)  
   *Holds salary constant, but reduces time*

D. Layoffs (say, 4% of employees)

*Unlikely to survive legal challenge without major policy overhaul

An open question: Will state leaders create cover for cost reductions?

- HI governor proposes temporary 20% pay reduction for public employees (includes teachers)
- CA governor proposes temporary 10% pay reduction for state employees (will districts follow suit?)

If cuts are imminent, a HI salary reduction could avert nearly 2000 teacher layoffs... or furloughs of 2 months of schooling
In states where districts have been warned of cuts to K-12 revenue:

What we’re seeing so far:
• Lots of inaction on budgets!
• Freeze and trim actions
• Cuts to activities – e.g. athletics, after-school, pre-K
• Some delay of state pay raises
• Some furloughs

What we’re worried we’ll see more of for the fall:
• Fiscal inaction/delays!
• Across-the-board furloughs that reduce days for students
• LIFO layoffs that affect some schools more than others

What about more strategic cuts? e.g., use a scalpel, not an axe?
That takes:
• Vision, strong leadership
• Time, planning, negotiation
• Accepting uneven impacts on staff

How does decentralizing cuts work?
• % cut to each school’s allocation -- principals protect what matters to their students
• Requires principal engagement
More decisions that matter in coming months

HOW states cut funding
- Will cuts affect some districts more than others?
- Will they revise formulas, eliminate hold harmless provisions, etc.

What are the financial implications of non-working teachers (too vulnerable to come to school)?
- Do districts continue to pay salaries?
- Are there other public funding sources?

So far, we see flat % cuts, e.g., Gov. Newsom proposes 10% cut to LCFF.

At the moment, districts assume they pay and financial implications are substantial.
This K-12 financial story is far from over.

Q & A

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Visit EdunomicsLab.org for resources on how financial turmoil is impacting K-12

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