30-Minute Webinar: The financial forecast is in! School district budgets are headed for a wild ride…

August 18, 2022

Marguerite Roza @MargueriteRoza
MR1170@georgetown.edu

Chad Aldeman @ChadAldeman
CA903@georgetown.edu

Katie Silberstein @K_M_Silberstein
KS1747@georgetown.edu

Slides available at edunomicslab.org

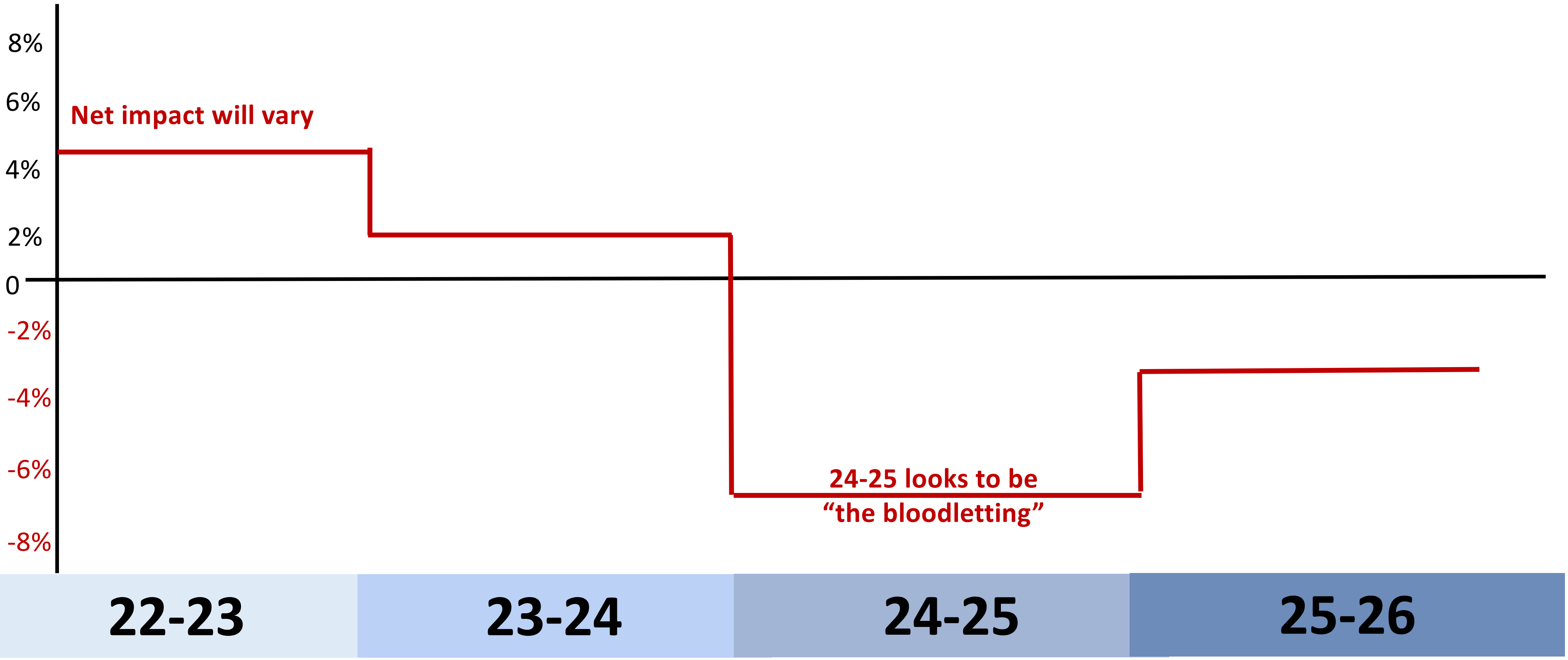
Note: Presentation is on-the-record but Q&A after is off-the-record unless otherwise noted

Four atypical financial shocks coming to a district near you..

Predictions are risky

"Not so much a prediction but more a **roadmap** for taking stock of what these shocks mean for your schools!"

The net impact of atypical financial shocks on public education



Four atypical financial shocks coming to a district near you.

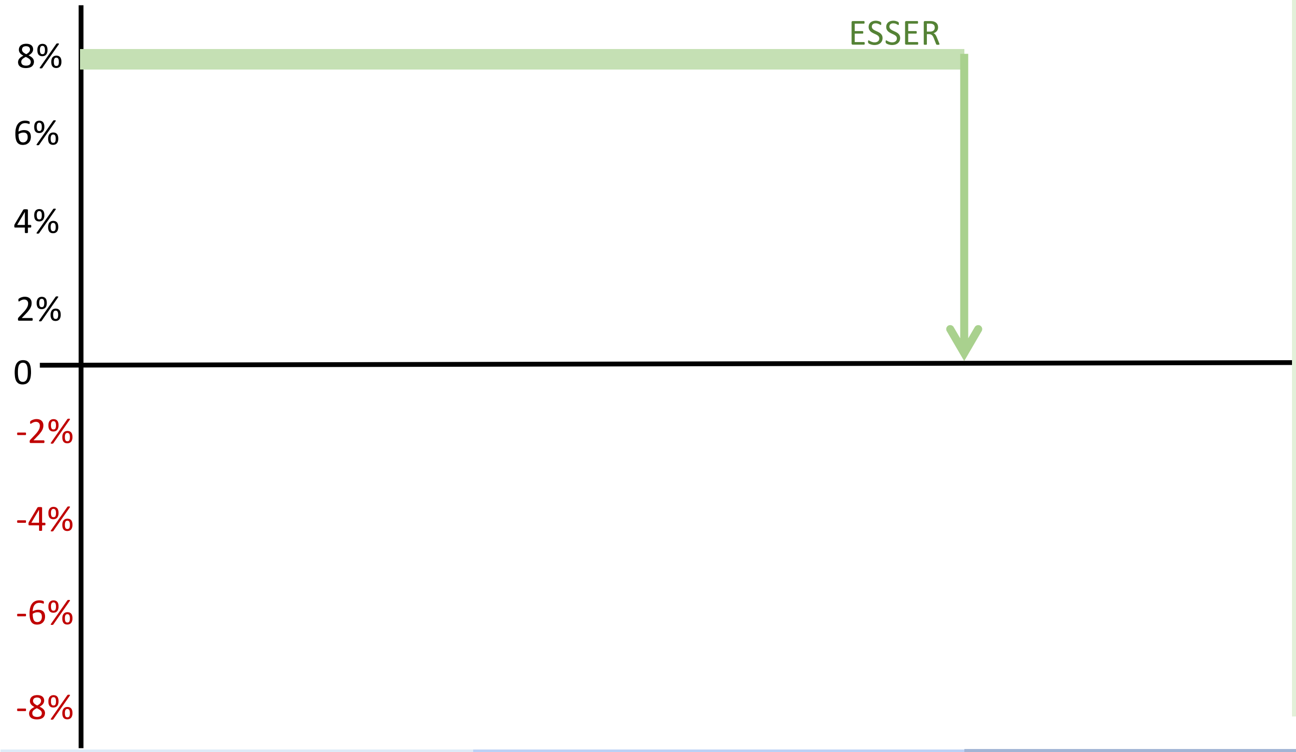
1. ESSER is boosting spending but then ends abruptly 9/24
   - Most at risk: Districts using ESSER for recurring financial commitments via budget backfilling, new hires or permanent raises.

2. Enrollment declines mean fewer revenues in the long run
   - Most at risk: Urban districts. Districts closed longer. Northern states.

3. Inflation, labor scarcity, & new hiring are driving up recurring commitments
   - Most at risk: Those offering permanent raises that are larger than typical (typical is ~1-2% on top of 3% via step/column increases) and those growing their staff rolls.

4. An economic slowdown would affect growth in state revenues
   - Most at risk: Districts that are more dependent on state revenue (or in states more affected by economic slowdowns).

Timing and magnitude of atypical financial effects on typical budgets



#1. ESSER

- Per USED*, $130B in district ESSER funds remains unspent.
- Spending it down means spending **~$5B per month (or $60B per year)**.
- After 9/24, ESSER can't be used for ongoing labor costs (although districts may be able to extend the liquidation period on previously signed vendor contracts for purchased services/ supplies/ construction.)

22-23	23-24	24-25	25-26

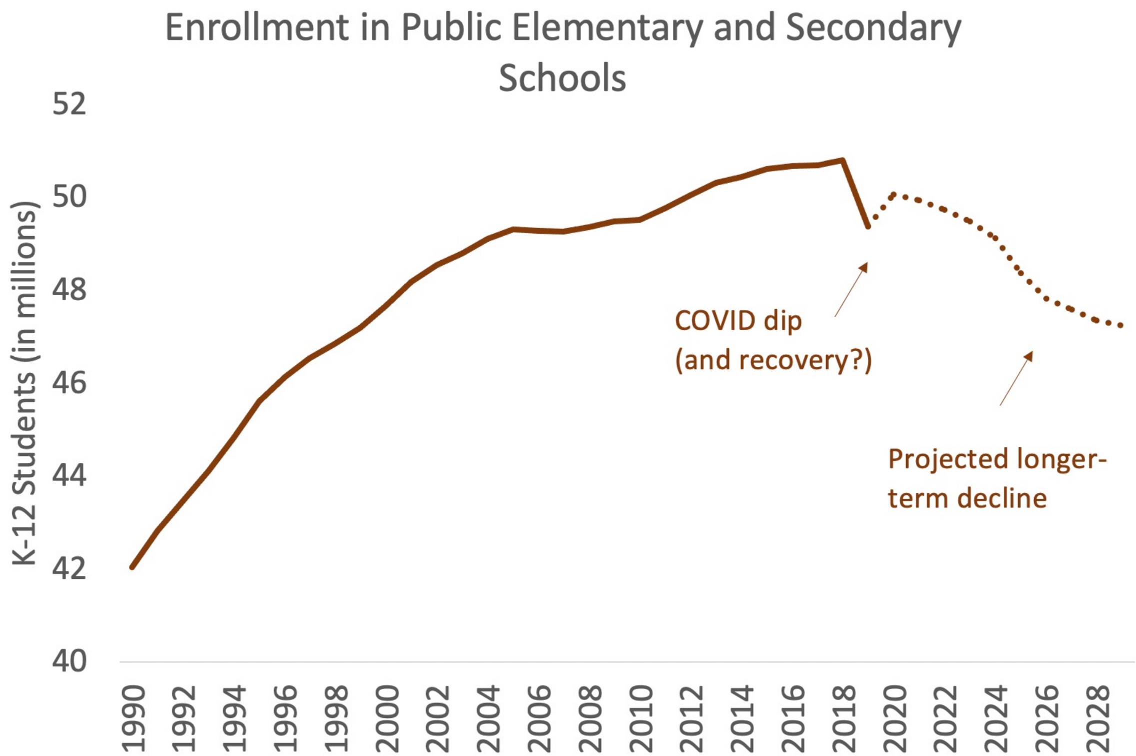
*https://covid-relief-data.ed.gov

Four atypical financial shocks coming to a district near you.

1. ESSER is boosting spending but then ends abruptly 9/24
   - Most at risk: Districts using ESSER for recurring financial commitments via budget backfilling, new hires or permanent raises.
2. Enrollment declines mean fewer revenues in the long run
   - Most at risk: Urban districts. Districts closed longer. Northern states.
3. Inflation, labor scarcity, & new hiring are driving up recurring commitments
   - Most at risk: Those offering permanent raises that are larger than typical (typical is ~1-2% on top of 3% via step/column increases) and those growing their staff rolls.
4. An economic slowdown would affect growth in state revenues
   - Most at risk: Districts that are more dependent on state revenue (or in states more affected by economic slowdowns).

#2. Enrollment effects

NCES: "By 2030, total public school enrollment is projected to decrease another 4 percent." [1]



Source: U.S. Department of Education, National Center for Education Statistics, https://nces.ed.gov/programs/digest/d21/tables/dt21_203.10.asp


DAILY NEWS

World - Business - Finance - Lifestyle - Travel - Sport - Weather

Issue: 240104 THE WORLDS BEST SELLING NATIONAL NEWSPAPER Est - 1965

First Edition Monday 5th June

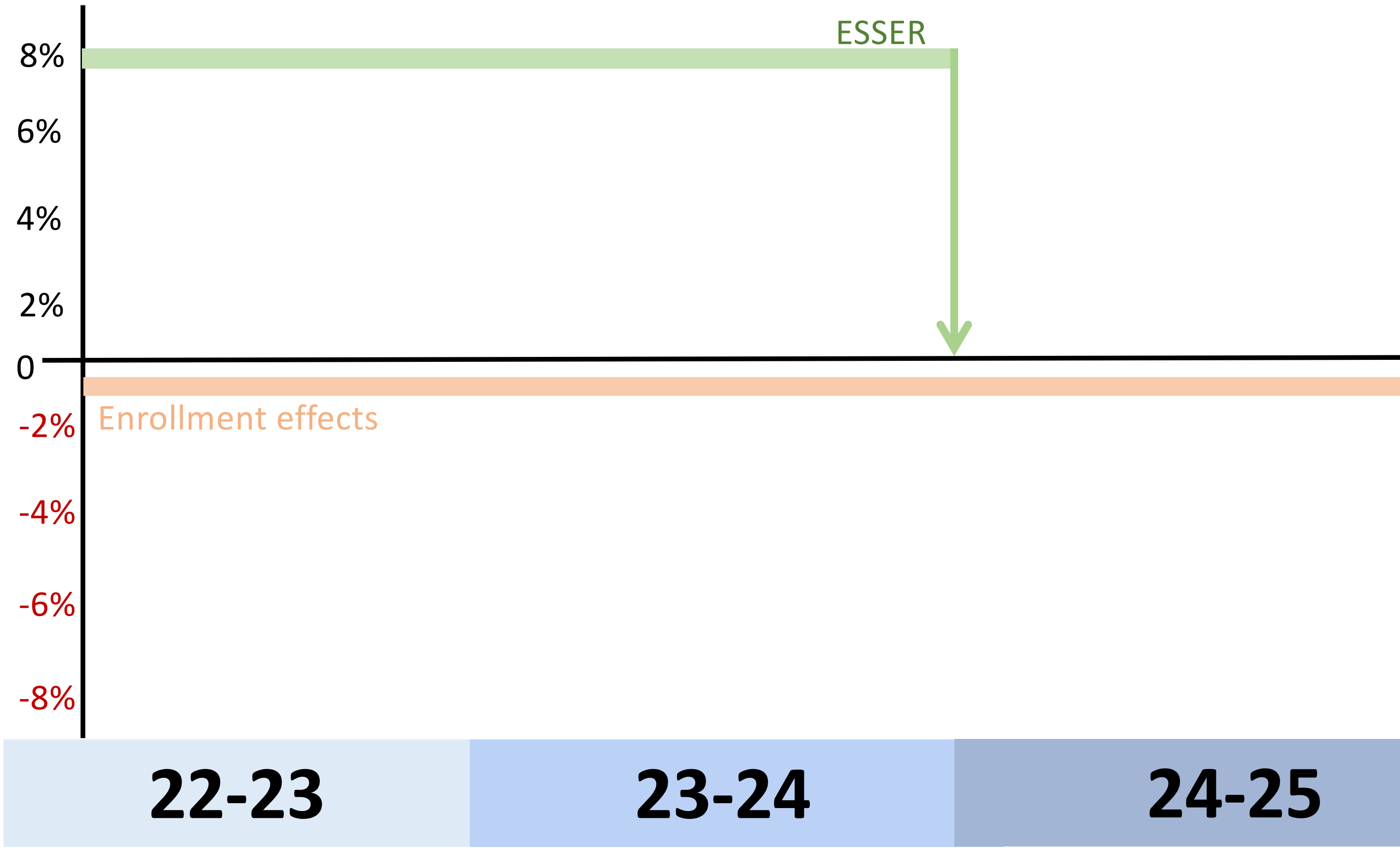
"School enrollments fell the most in districts that stayed remote"

– WA Post covering AEI analysis[1]

- A "COVID baby-bust[2]" means US child population is now shrinking by about ~1/2 % per year.
- Enrollment drops of even 3/4% can be financially destabilizing[3]

1. https://www.washingtonpost.com/education/2022/04/27/school-enrollment-declines-covid-remote/
2 https://www.brookings.edu/blog/up-front/2021/05/05/the-coming-covid-19-baby-bust-is-here/
3 In 2017, Roza examined spending data from districts >20,000 with and without enrollment declines..

Timing and magnitude of atypical financial effects on typical budgets



#2. Enrollment effects

- In the long run, district revenue from federal and states sources (and sometimes local sources) is tied to enrollment. In the short run, some states may “smooth” changes in state revenues via hold harmless provisions.
- Downsizing typically means eliminating staff, consolidating programs, and in some cases closing schools.

Four atypical financial shocks coming to a district near you.

1. ESSER is boosting spending but then ends abruptly 9/24
   - ➢ Most at risk: Districts using ESSER for recurring financial commitments via budget backfilling, new hires or permanent raises.

2. Enrollment declines mean fewer revenues in the long run
   - ➢ Most at risk: Urban districts. Districts closed longer. Northern states.

3. Inflation, labor scarcity, & new hiring are driving up recurring commitments
   - ➢ Most at risk: Those offering permanent raises that are larger than typical (typical is ~1-2% on top of 3% via step/column increases) and those growing their staff rolls.

4. An economic slowdown would affect growth in state revenues
   - ➢ Most at risk: Districts that are more dependent on state revenue (or in states more affected by economic slowdowns).

#3. Inflationary raises & commitments to expanded staff rolls

Typical district raises in prior years:

+ 1 - 2% COLA

+ 2 - 3% Step/column schedule

= 3 – 5% Total

SY22-24 district raises amidst inflation:

+ 3 – 5% COLA

+ 2 - 3% Step/column schedule

= 5 – 8% Total

It's not just education. BLS says weekly wages grew by 4.6% this year.*

Where raises are permanent (vs one-time bonuses) salary commitments will raise the salary floor for several years.

[* https://www.bls.gov/news.release/realer.t01.htm](https://www.bls.gov/news.release/realer.t01.htm)

#3. Inflationary raises & commitments to expanded staff rolls

Need better data!

In 8 states for which we have data comparing total school staffing from 19-20 to 21-22:

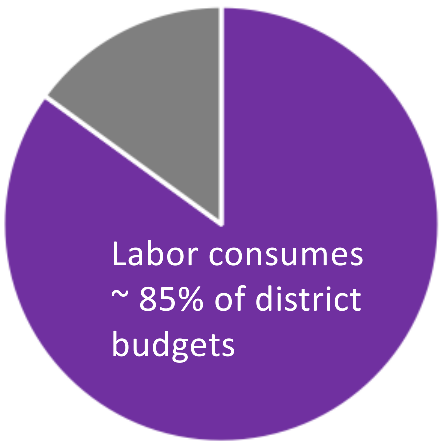
- 2 states had staff reductions
- 6 had growth (one as high as 7%)
- Average = 1.5% growth

What will happen to staffing in 22-23? We guess we'll see more growth maxing out at 2-5% more staff than pre-pandemic.

Commitments to staff drive recurring cost growth. Districts struggle to reduce labor expenses.

Layoffs frustrate staff & communities. Layoffs target most junior teachers (who cost the least).

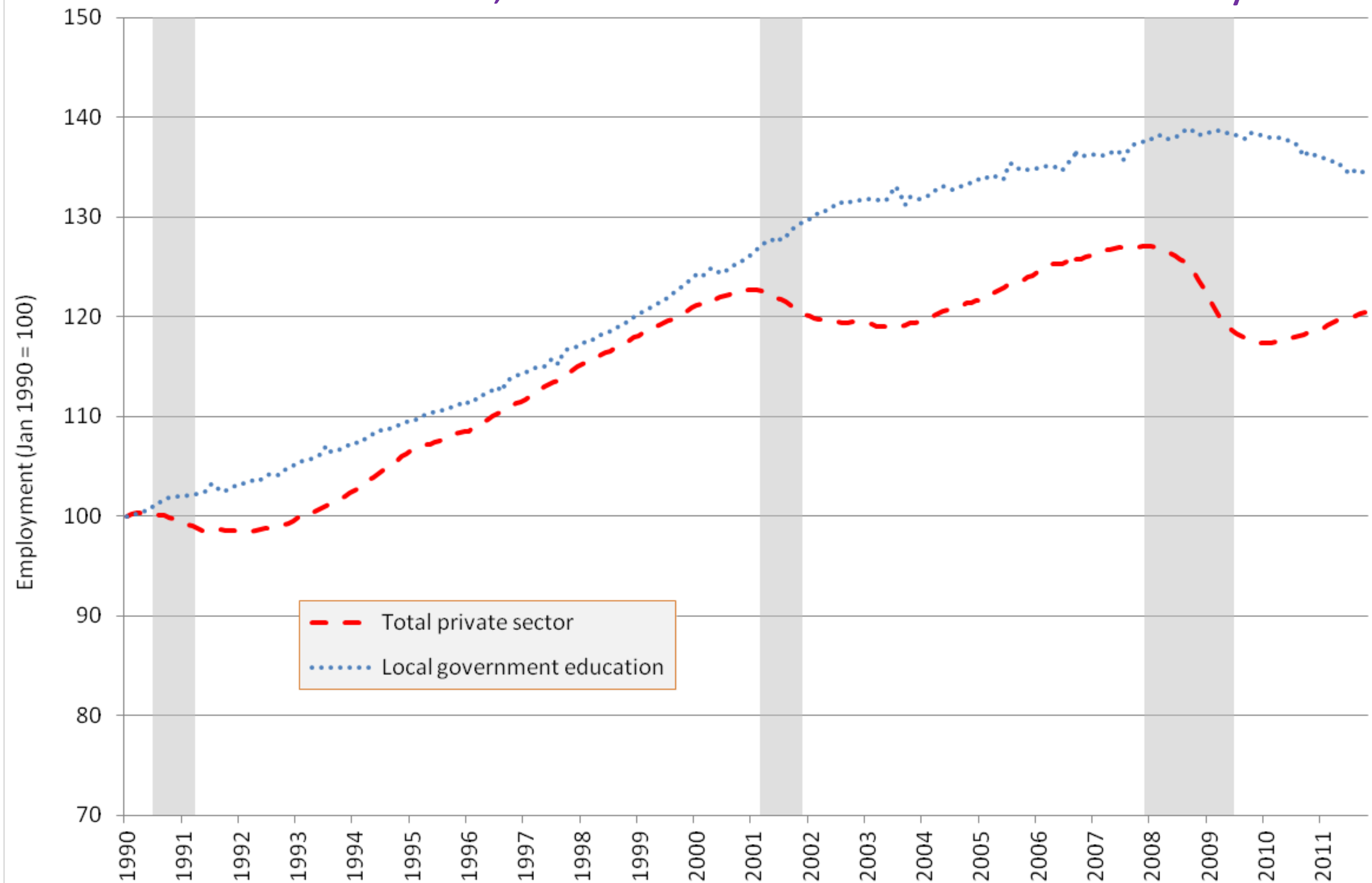
What about attrition? Attrition tends to be uneven (more teachers in science and SpEd leave than in PE)



It takes years of absorbing cuts before hiring/raises start again.

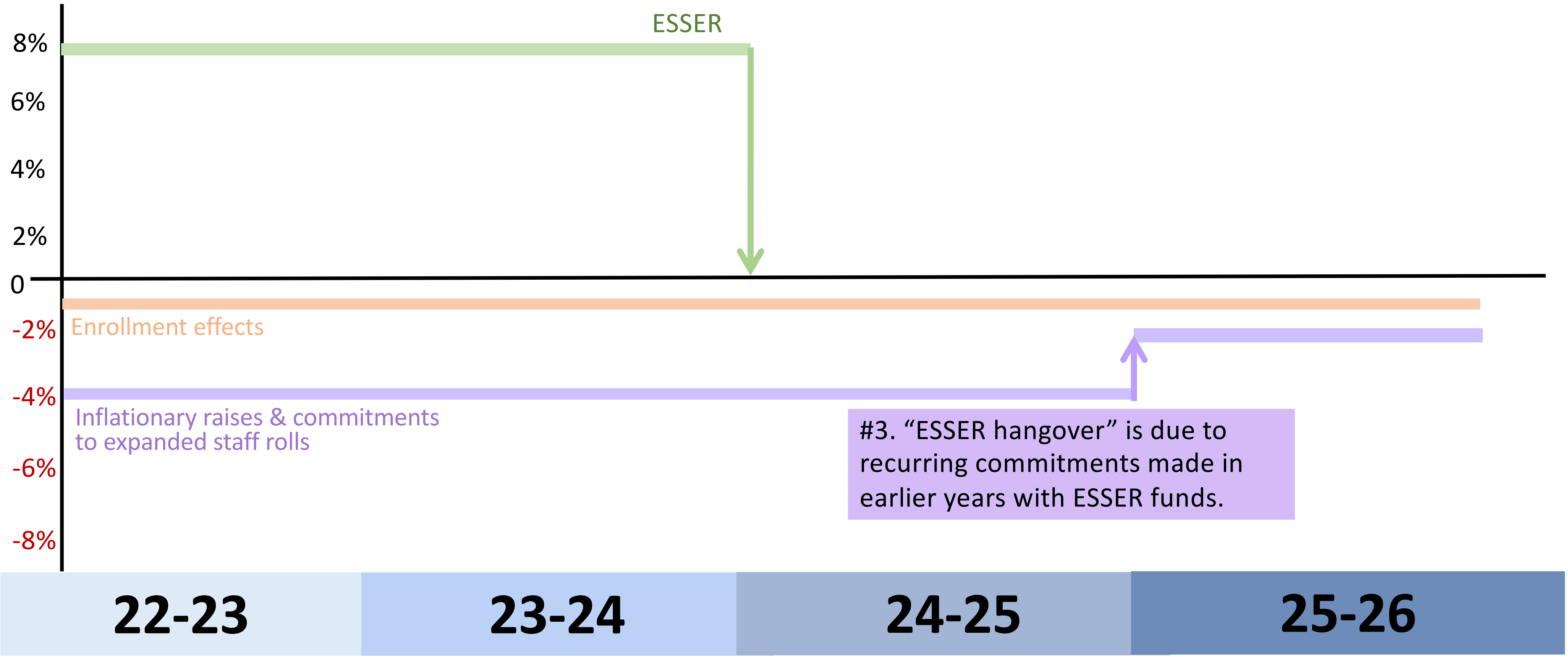
In contrast, the private sector sheds labor but responds more quickly when recession is over.

In education, labor commitments tend to be sticky.



Author's analysis of BLS data

Timing and magnitude of atypical financial effects on typical budgets

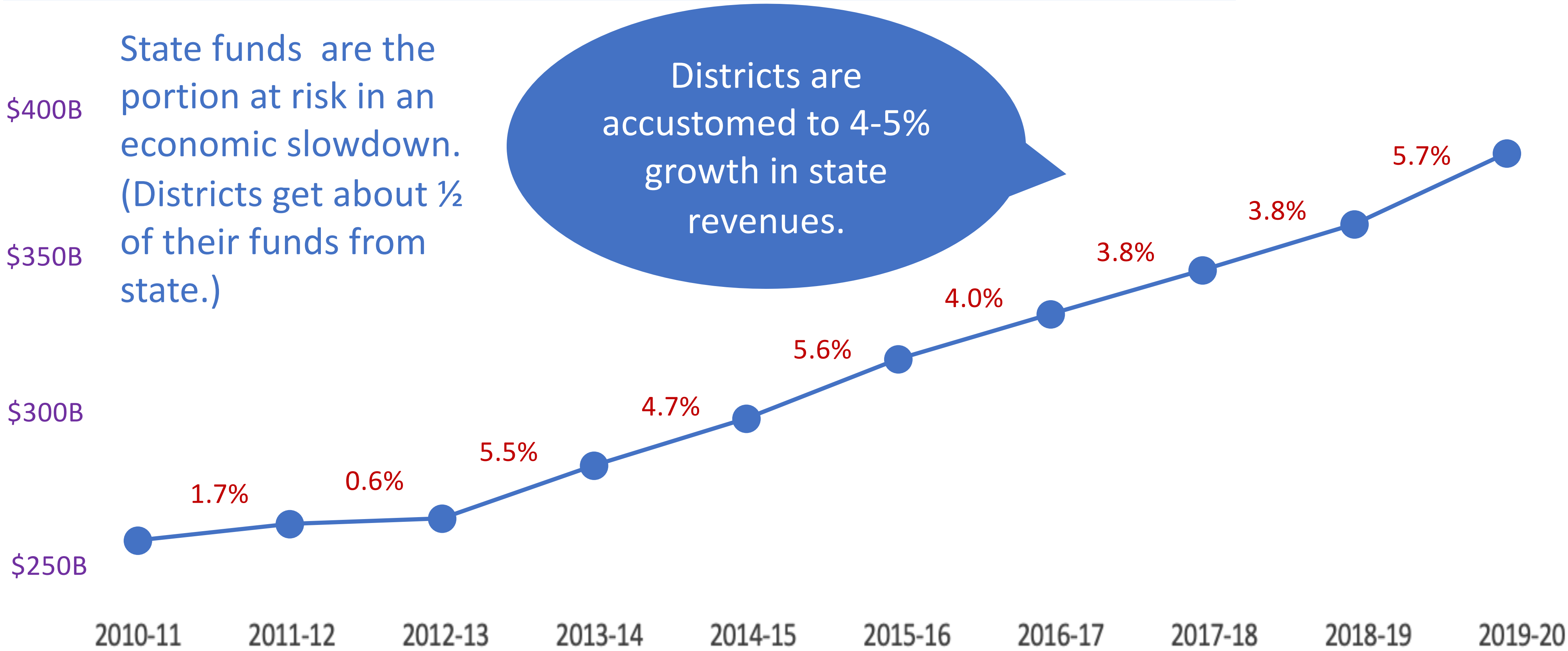


Four atypical financial shocks coming to a district near you.

1. ESSER is boosting spending but then ends abruptly 9/24
   - Most at risk: Districts using ESSER for recurring financial commitments via budget backfilling, new hires or permanent raises.
2. Enrollment declines mean fewer revenues in the long run
   - Most at risk: Urban districts. Districts closed longer. Northern states.
3. Inflation, labor scarcity, & new hiring are driving up recurring commitments
   - Most at risk: Those offering permanent raises that are larger than typical (typical is ~1-2% on top of 3% via step/column increases) and those growing their staff rolls.
4. An economic slowdown would affect growth in state revenues
   - Most at risk: Districts that are more dependent on state revenue (or in states more affected by economic slowdowns).

#4. An economic slowdown could affect growth in state revenues

State funds are the portion at risk in an economic slowdown. (Districts get about ½ of their funds from state.)

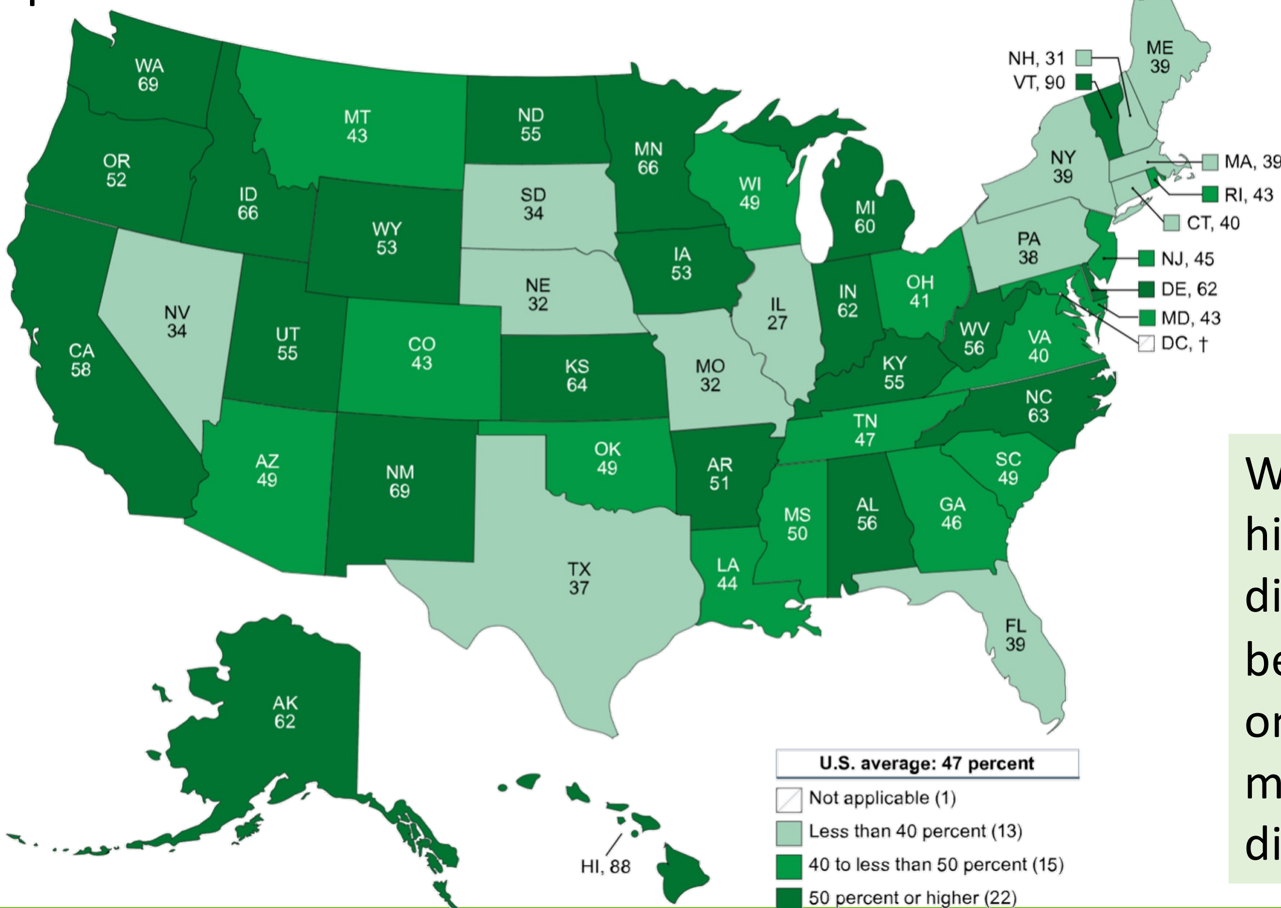


Data from https://nces.ed.gov/pubs2022/2022301.pdf

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.

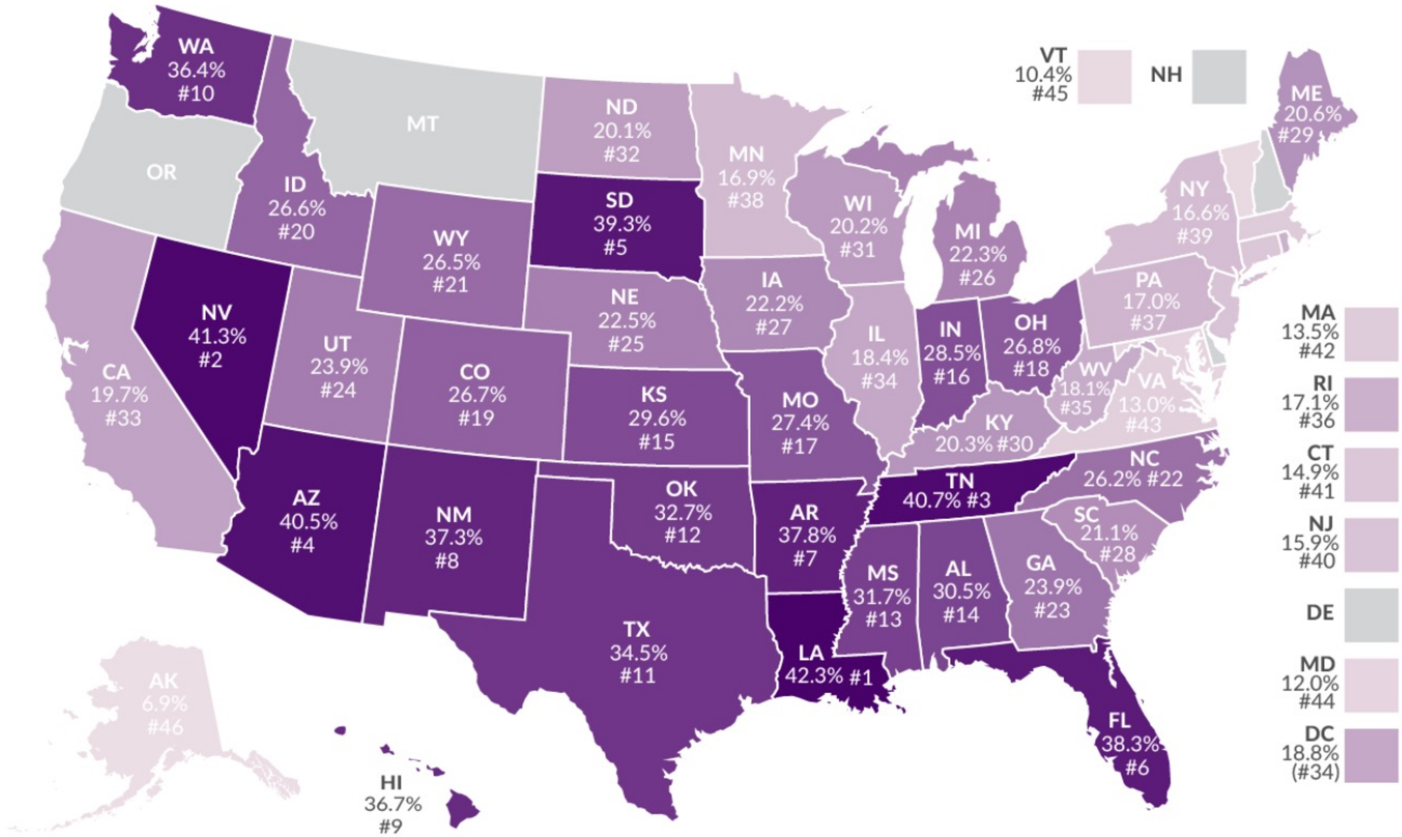


Within states, higher-poverty districts tend to be more reliant on state $ than more affluent districts

https://nces.ed.gov/programs/coe/indicator_cma.asp

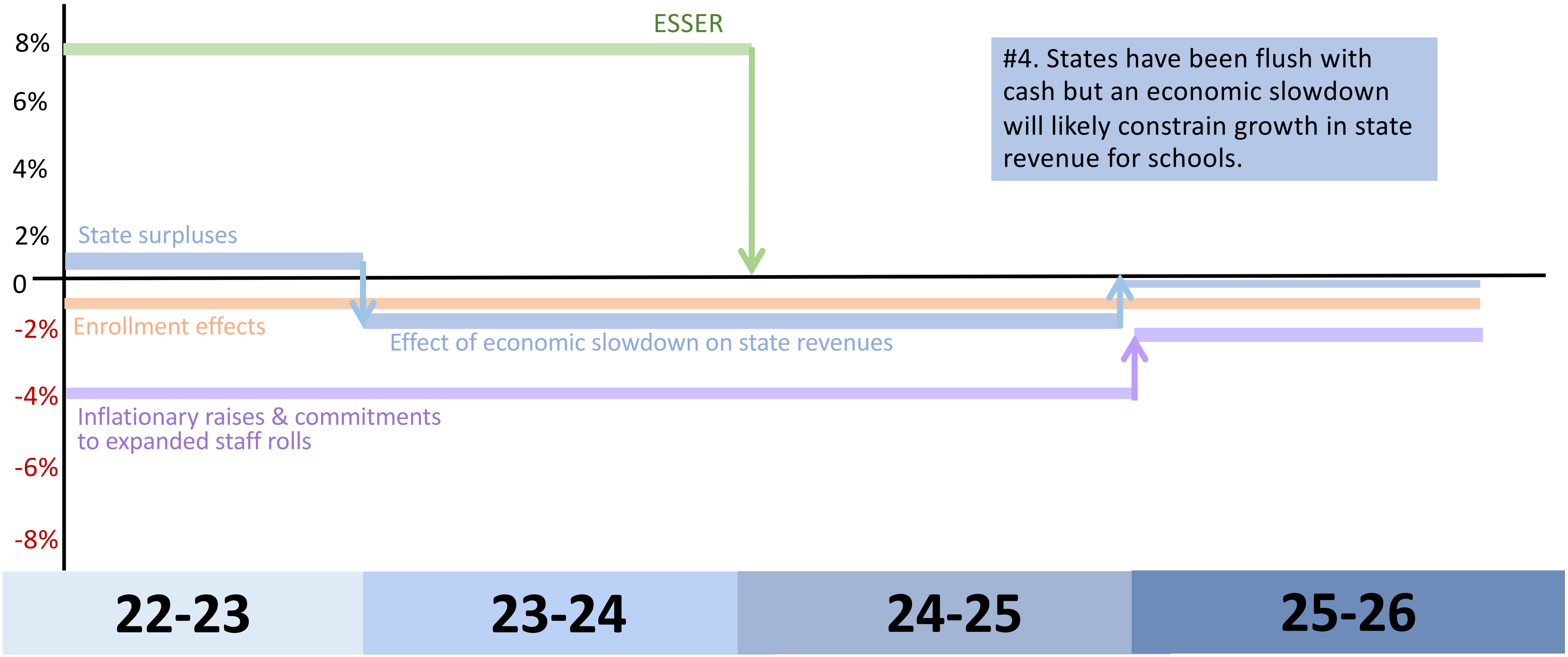
States differ in reliance on sales taxes

Sales taxes are typically the most immediately vulnerable to economic downturns.

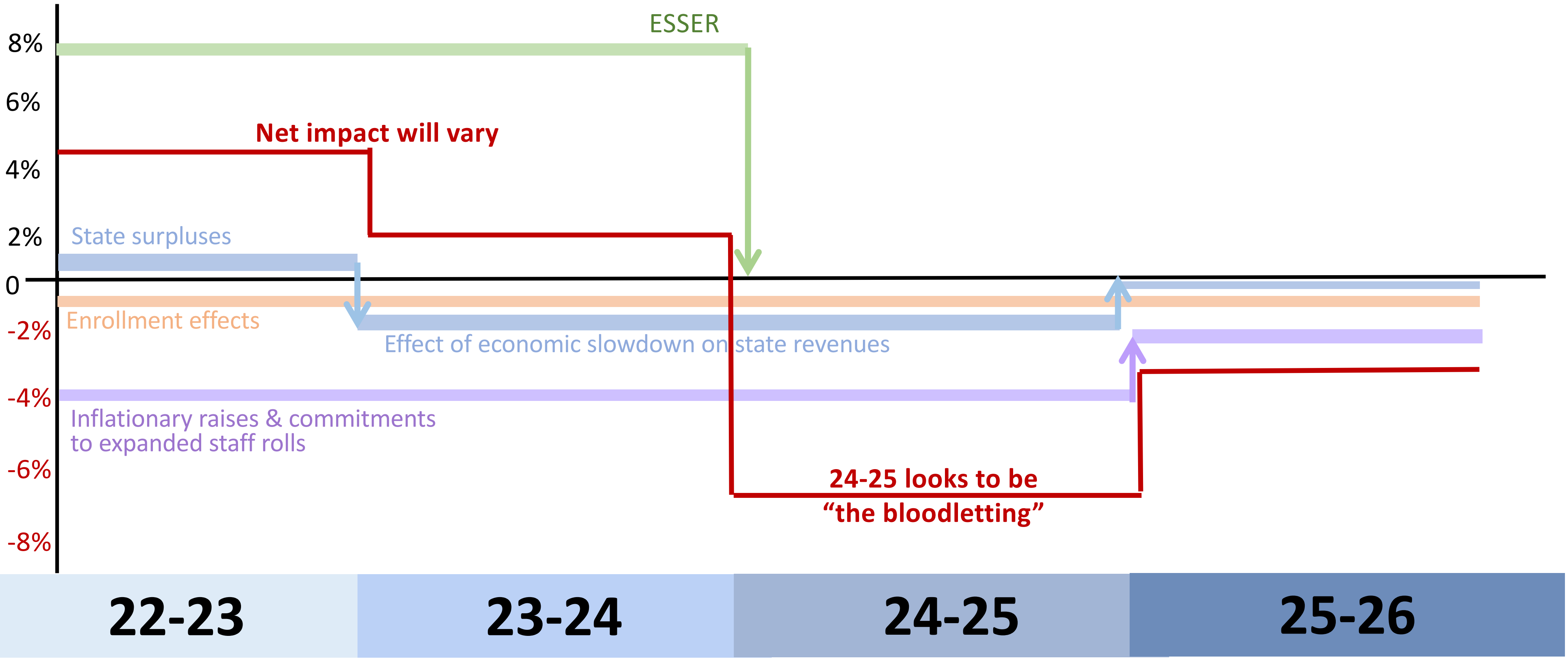


https://taxfoundation.org/state-sales-tax-reliance-2021//

Timing and magnitude of atypical financial effects on typical budgets



Timing and magnitude of atypical financial effects on typical budgets



Lots of loose ends:

How deep or long will an economic slowdown be?

Will US ED issue a stronger ESSER liquidation extension (thereby shifting some spending from labor to vendor contracts? (Contracts would still need to be signed by 9/24 but goods/services could be delivered throughout the following 18 months.)

Will turnover among recent hires in subsequent years be higher than typical?

Will state or federal leaders move to increase ed revenues?

What can districts do?

- ✓ Run the district's forecast on each of the 4 factors!
- ✓ Share projections with board, principals, staff and community.
- ✓ Ensure reserves are healthy.
- ✓ Where feasible, use one-time bonuses or contract labor to limit recurring commitments.
- ✓ Consider offsetting permanent pay raises with reduced staff counts.
- ✓ Revisit layoff policies now when flush with cash. Renegotiate if needed.
- ✓ Remove barriers to school flexibility (e.g., policies for staffing ratios, etc.).
- ✓ Where enrollment dropped significantly, get started on rightsizing.

Q&A

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

Connect with us:

Marguerite Roza @MargueriteRoza
MR1170@georgetown.edu

Chad Aldeman @ChadAldeman
CA903@georgetown.edu

Katie Silberstein @K_M_Silberstein
KS1747@georgetown.edu

Visit EdunomicsLab.org for webinar slides, recording, and other resources, including "The Calculator" and our ESSER Expenditure Dashboard.
Sign up for our newsletter at http://bit.ly/EdFiNews

Three different types of finance training opportunities this fall:

School Board Members: Finance Training

4-Part Virtual Workshop, 12-2 pm ET
September 16, 23, 30 and October 7
https://edunomicslab.org/financefridays-sbm/

Certificate in Education Finance
GEORGETOWN UNIVERSITY

EDUNOMICS LAB The Study of Education Finance

REGISTER AT
mccourt.georgetown.edu/cef

AASA/Edunomics Lab Superintendent Finance Training
Four Thursdays: Sept 15, 22, 29, and Oct 6, 1-3 ET
https://aasa.org/edu-finance.aspx