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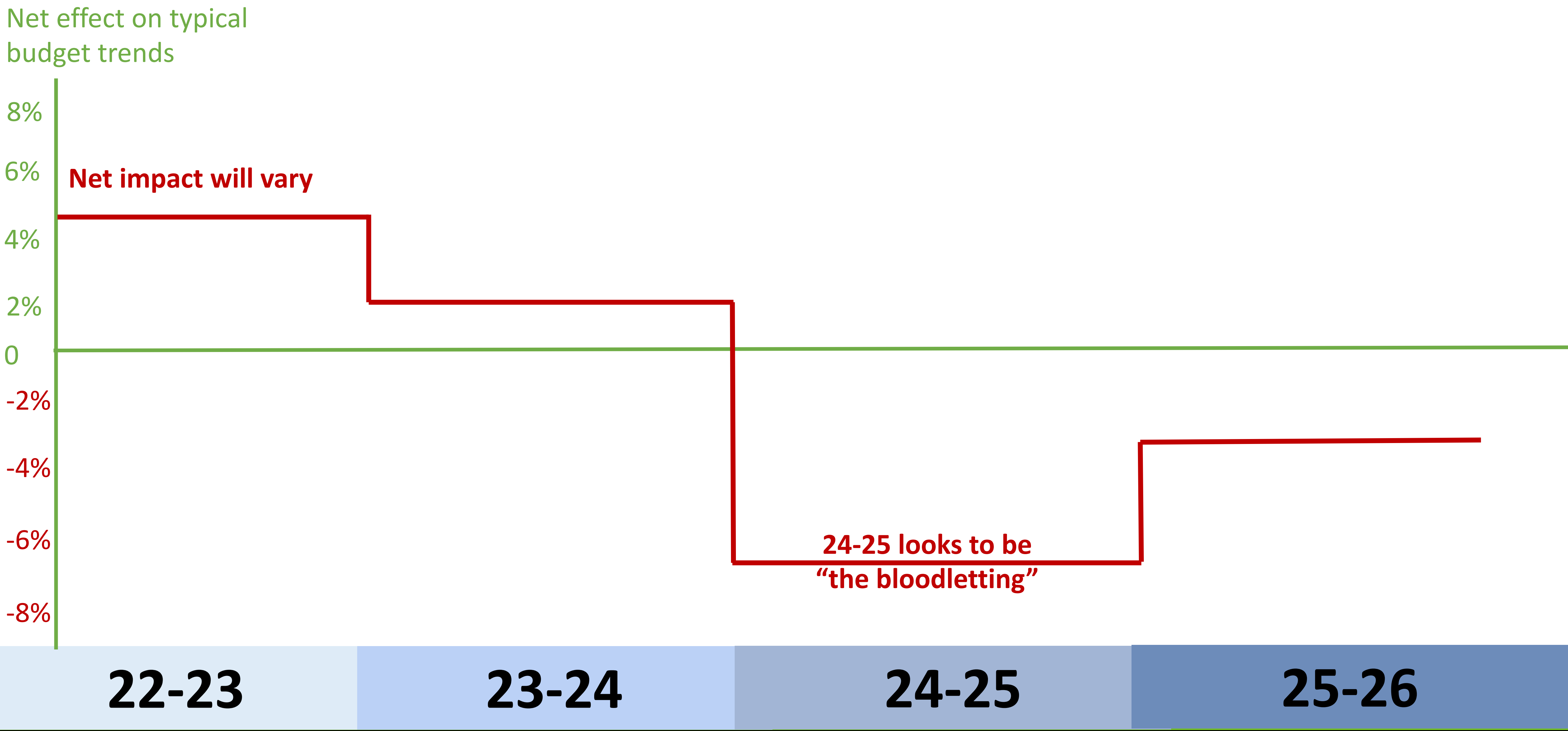
What happens to K-12 nonprofits and vendors when ESSER ends?

Nov 15, 2023

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

Slides available at edunomicslab.org

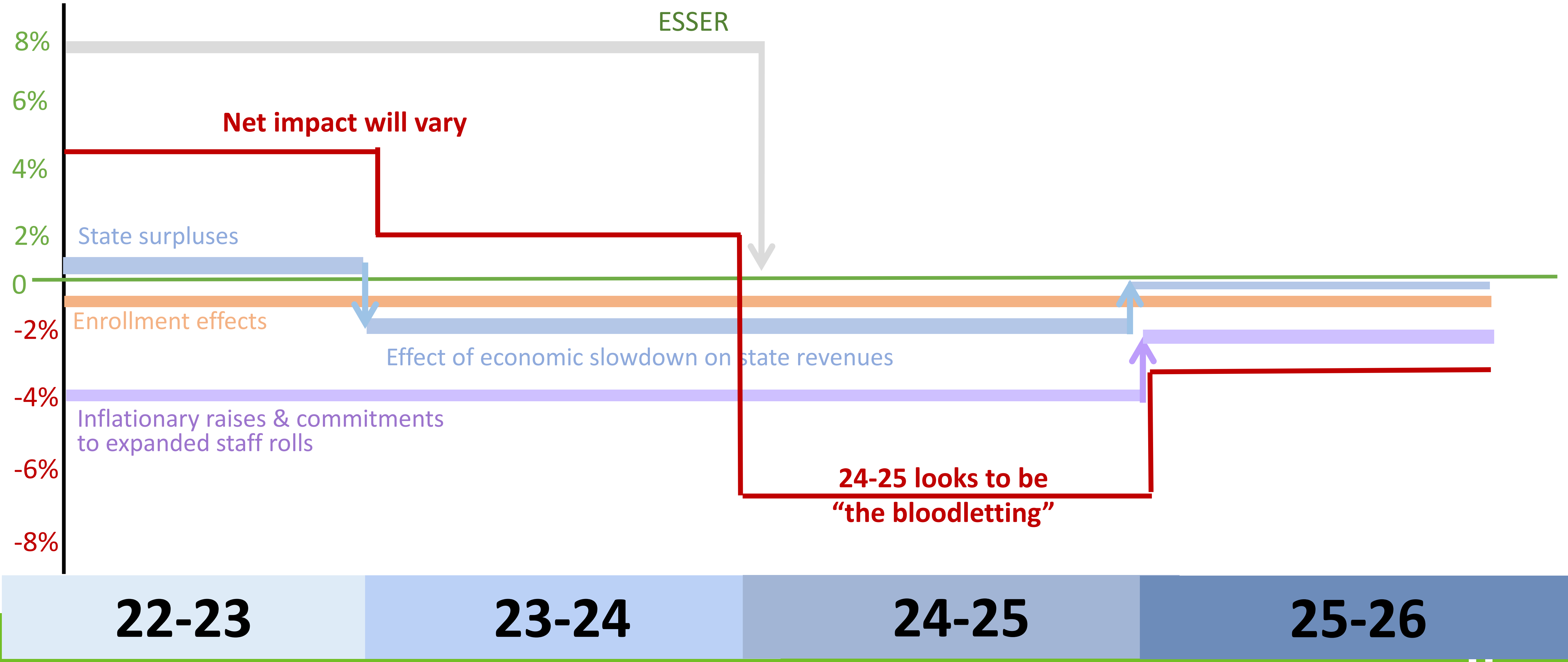
Atypical financial shocks coming to a district near you



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).

Atypical financial shocks coming to a district near you



ESSER Spend Down: Big Year Ahead

LEAs:

Ensure proper procurement (including board approvals)

Plan for spend down

Final board vote on 24-25 budget

9/30/24: Last day to
- use ESSER for labor
- sign contracts

1/28/25: Deadline to pay vendors & seek reimbursement

Nov Dec Jan Feb Mar Apr May June July Aug Sept Oct Nov Dec Jan

2023-24

2024-25

Approve late LEA plan adjustments

Bloodletting

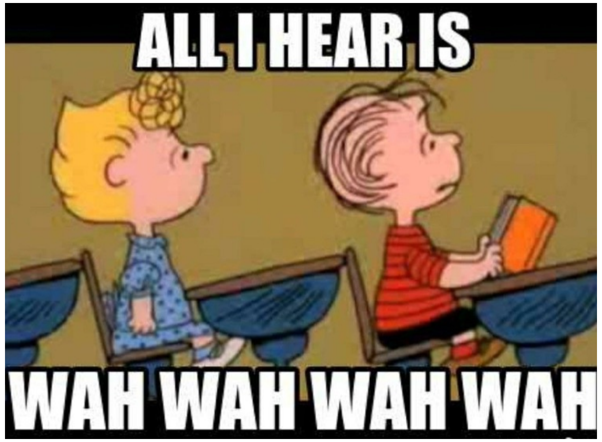
Approve and reimburse final LEA expenses

SEAs:

ESSER extensions?

Unspent ESSER reverts to Feds

What’s the latest with the ESSER extension?



So far here’s what’s **not** changing:

- ✓ Last day to use ESSER3 for salaries/benefits – 9/30/24
- ✓ Last day to sign an ESSER3-funded vendor contract – 9/30/24
- ✓ Districts must use proper procurement processes

BUT, still waiting on guidance for "late liquidation"

For a signed vendor contract, LEA can apply for an extension to get more time for *delivery of services* (beyond 9/30/24)

- ✓ District/charter must submit request on specific vendor contract to SEA. SEA then submits request to feds. No blanket extensions.
- ✓ Requests must have a qualifying reason (some unexpected emergency, like supply chain delays on delivery of services).
- ✓ 9/18/23 ED letter announces a new "qualifying reason" -- the need to extend delivery of academic support to get kids back on track… *and promises that more details are coming.*

Here’s what we’re hearing:

LEAs: So, can we use ESSER to “prepay for services”?

ED: Yes under certain circumstances.

ED: But can’t apply for approval ‘til after 9/2024.

ED OIG (per previous audits): No.

Definitely some risk: Auditors could argue prepayment wasn’t allowed.

So, should we risk it?

And come 1/2025, could have a new ED administration.

What effect has ESSER had on district purchasing?*

2018-19		+ ESSER 3 annually
$67 B	Purchased services	+ $8.5 B
$37 B	Supplies	+ $8.0 B

Effect of ESSER on SEA allocations to nonprofits/vendors?**

Mostly new	+ ~$6.7 B

ESSER fueled ~$23B annual increase in K12 spending on nonprofits /vendors

Edunomics Lab analysis draws on trends from selected states with detailed ESSER expenditures to estimate national impacts.

*Excludes facilities, transportation and food services

** Many SEAs used much of their 10% set-aside for contracts or subcontract to nonprofits and vendors

What will happen to district purchasing when ESSER ends?

2024-25 could bring **triple whammy** of effects for the vendor market:

1. ESSER-fueled district purchasing ends
2. ESSER-fueled SEA contracts and sub grants end
3. Fiscal cliff will prompt districts to prioritize staffing over purchasing with 24-25 dollars

TRIPLE WHAMMY

The third whammy is how districts handle the fiscal cliff

4 stages of budget cutting

Gaps > 2-3% often require cuts to LABOR

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

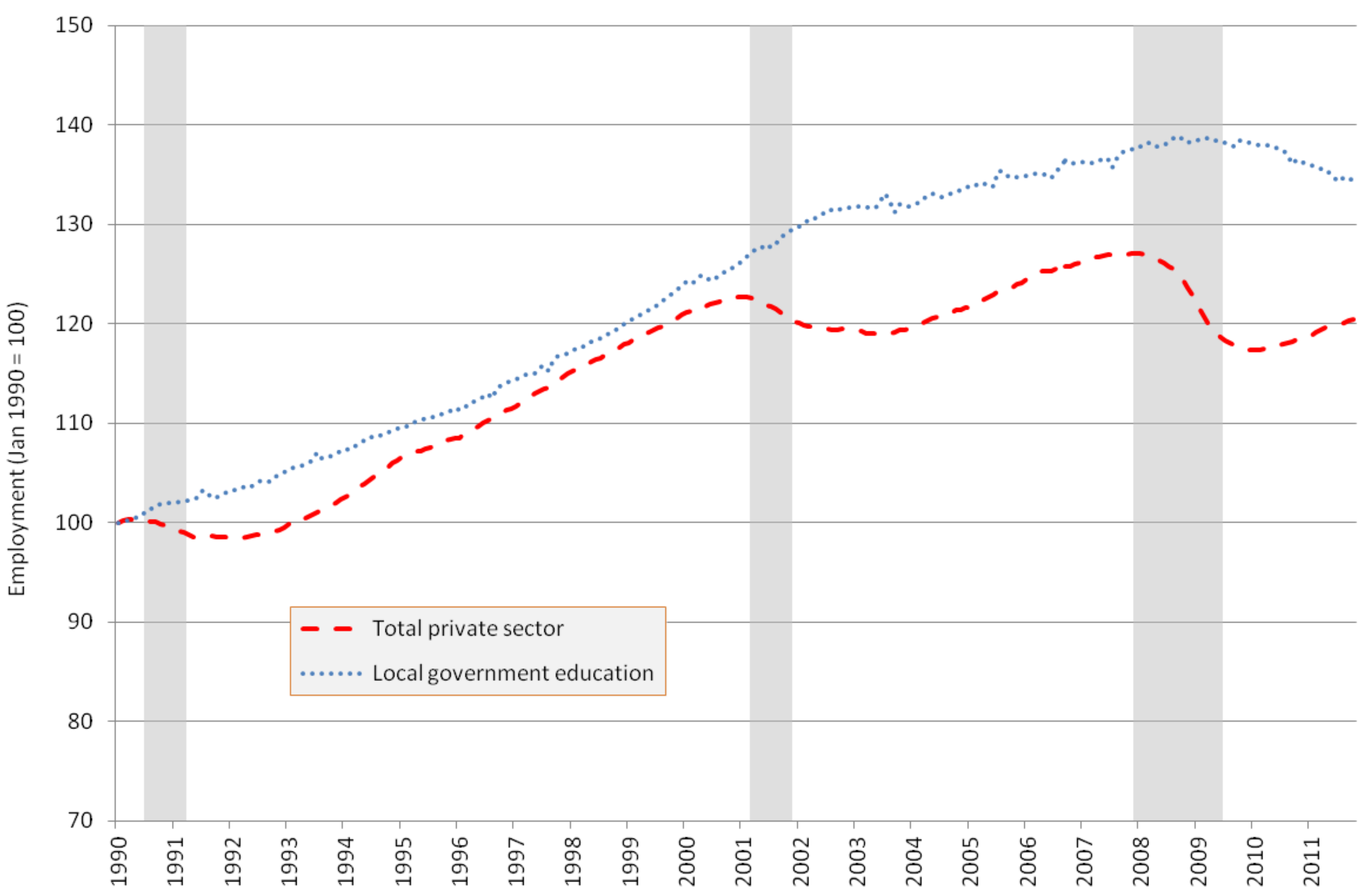
Labor reduction

Larger staff layoffs: elective staff, librarians, academic coaches, core teachers

Contracts tend to be the first items to get cut as districts protect labor

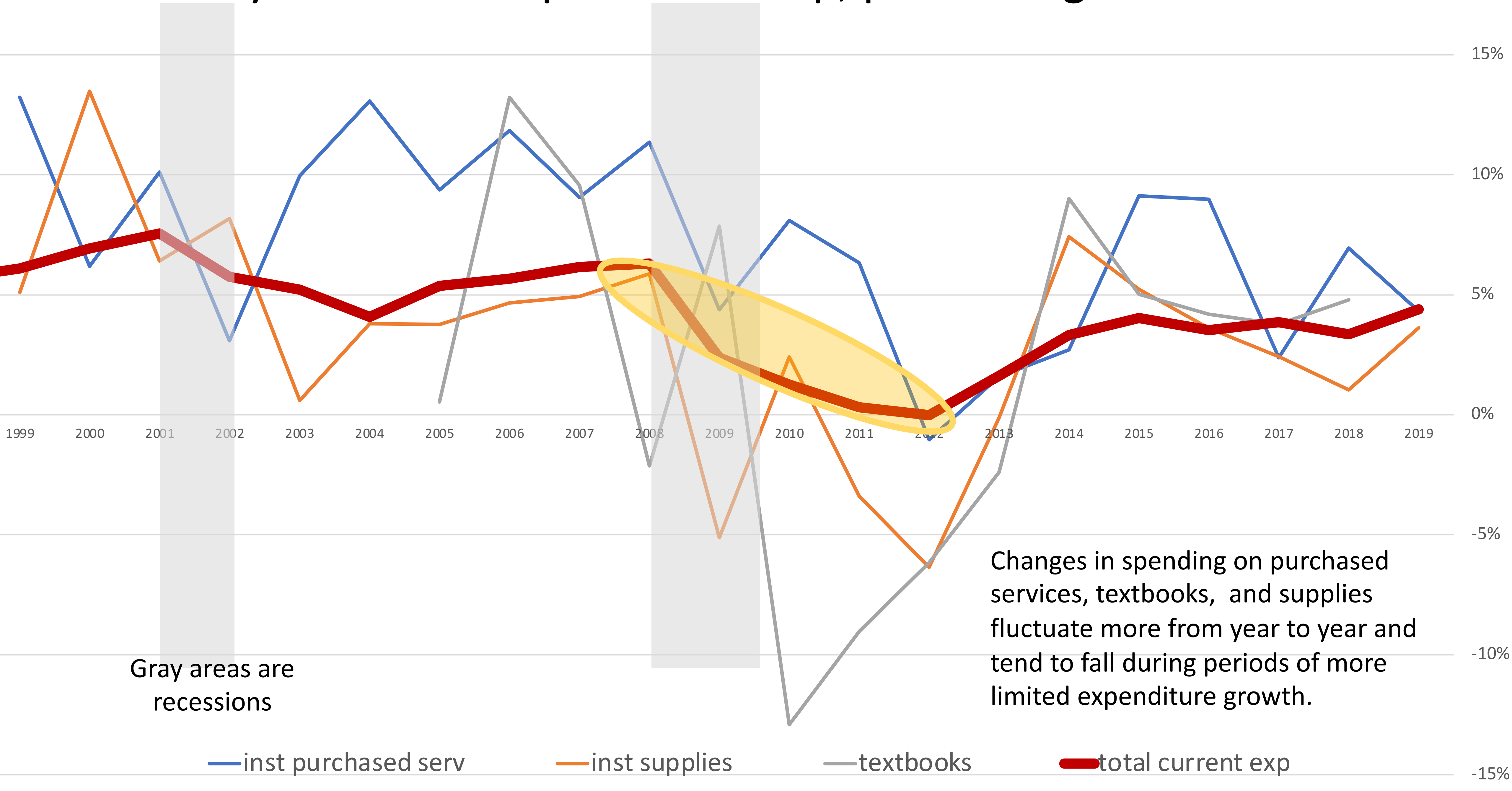
With budget gaps, districts prioritize holding on to staff, and it takes years of absorbing cuts before the district begins reinvesting.

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



Author's unpublished analysis of BLS data

Historically when K12 expenditures dip, purchasing takes a nose dive



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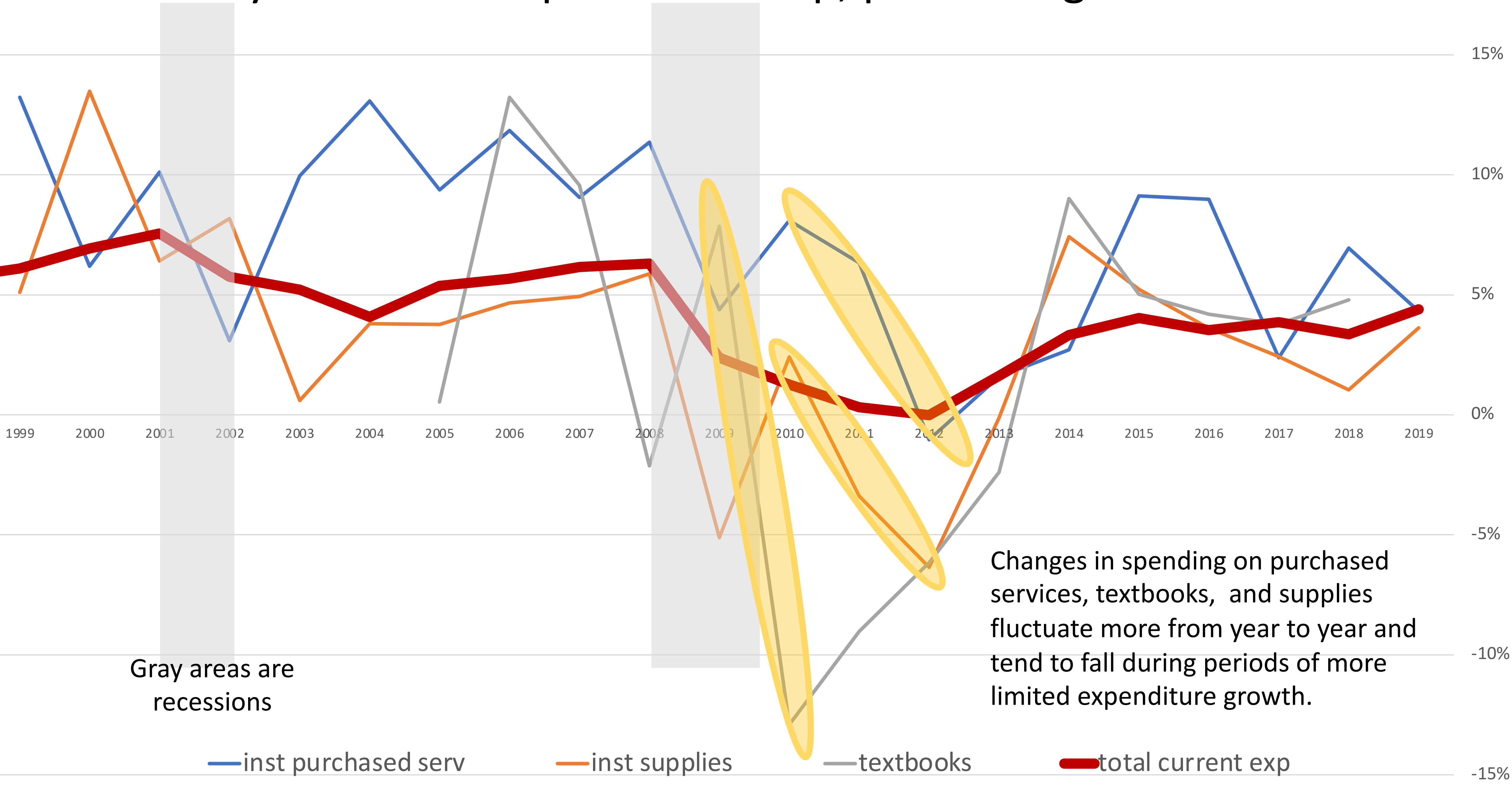


What we're hearing about how district leaders weigh budget cuts?

Our first consideration is our political environment.

Need to minimize the number of employees who are upset.

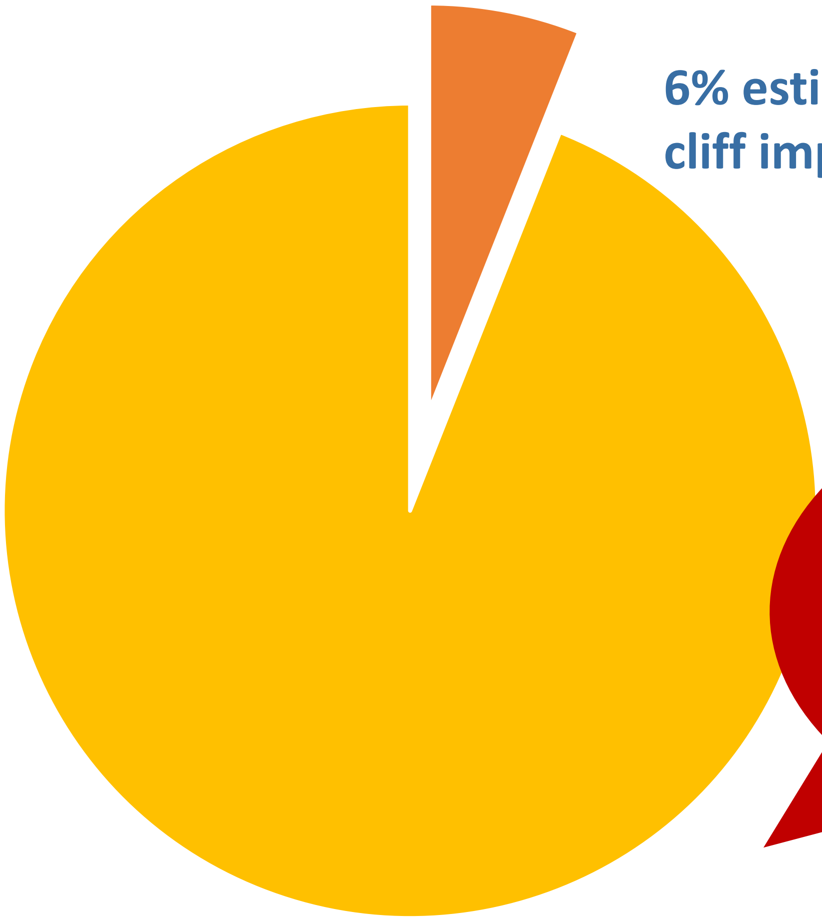
Budget cuts that hurt our people are the hardest, especially when it affects their life.

We'll be evaluating each of our vendor contracts, using data to decide what to keep/cut.

It's very hard for us to know if a vendor contract is working.

Focus groups and interviews with district leaders.

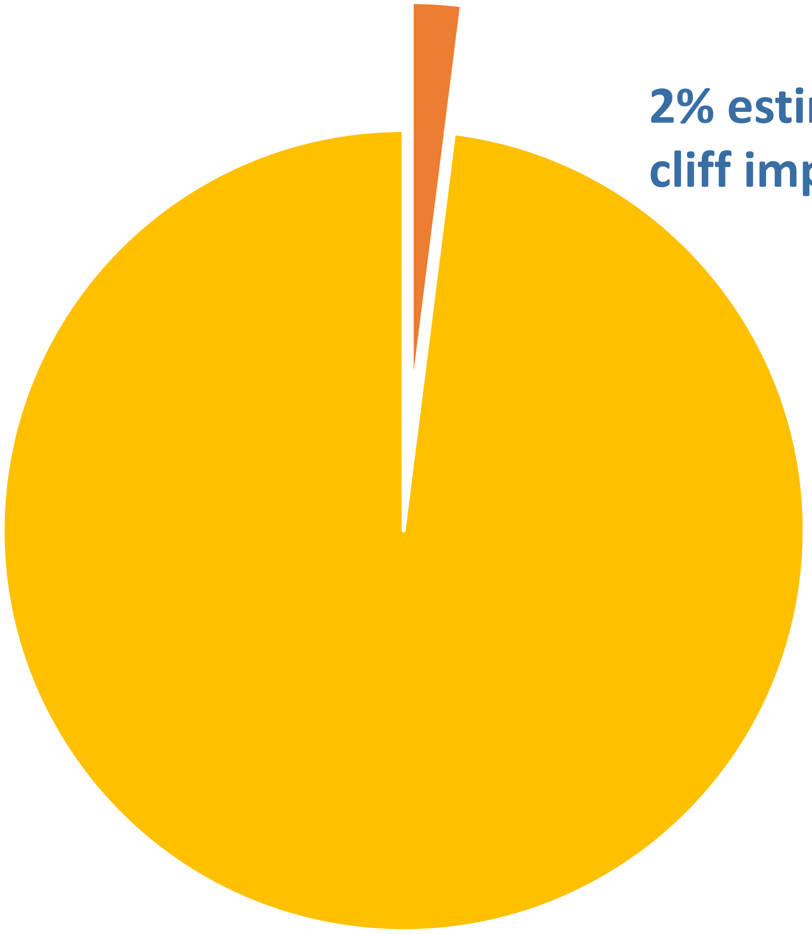
Where will the cliff affect purchasing the most?



6% estimated
cliff impact

Districts >75% poverty

Higher poverty districts will see larger budget impacts



2% estimated
cliff impact

Districts <25% poverty

Looking forward

There was lots of hope that new ESSER money would drive innovation and better delivery, partly through partnerships with nonprofits and vendors.

External partners can be:

- ✓ More data driven
- ✓ More nimble
- ✓ More innovative

ESSER isn't over yet.
(10 months left)

And while the K12 market is shifting, it isn't dead.

% ESSER 3 spent by state by 9/23

Rapid spending in these states leaves little $ for the final year

Districts in these states are spending their ESSER 3 more slowly, so have more to spend in 23-24.

>60%

AK
AR
IA
OK
WA

60-51%

DE NV
FL NC
GA ND
KY OH
MI TX
MO

50-41%

AL ID PA
AZ IL SC
CA IN SD
CO KS TN
CT MN UT
HI MT VA

40-31%

LA MS NY
MA NH OR
MD NJ WV
ME NM WY

<30%

DC RI WI
NE VT

In VA, 14 districts have spent <20% of ESSER 3 and have >$300K remaining.

Edunomicslab.org/esser-spending

*Data through 9/30/23

District		Total ESSER III Allocation	% ESSER III Spent		$ Remain
PORTSMOUTH CITY PUBLIC SCHOOLS	$	46,741,523	0%	$	46,741,523
CHESAPEAKE CITY PUBLIC SCHOOLS	$	51,134,021	0%	$	51,127,474
CHARLES CITY COUNTY PUBLIC SCHOOLS	$	1,276,656	4%	$	1,228,262
HENRICO COUNTY PUBLIC SCHOOLS	$	78,373,870	4%	$	75,195,224
NEW KENT COUNTY PUBLIC SCHOOLS	$	1,846,132	4%	$	1,768,604
TAZEWELL COUNTY PUBLIC SCHOOLS	$	13,754,494	7%	$	12,832,224
DEPARTMENT OF JUVENILE JUSTICE	$	1,213,219	8%	$	1,113,035
GILES COUNTY PUBLIC SCHOOLS	$	3,630,594	8%	$	3,326,203
WINCHESTER CITY PUBLIC SCHOOLS	$	8,194,577	10%	$	7,358,885
WYTHE COUNTY PUBLIC SCHOOLS	$	7,898,160	12%	$	6,922,920
LOUISA COUNTY PUBLIC SCHOOLS	$	6,773,408	15%	$	5,759,074
MONTGOMERY COUNTY PUBLIC SCHOOLS	$	13,591,243	15%	$	11,540,044
VIRGINIA SCHOOL FOR THE DEAF AND THE BLIND	$	675,103	18%	$	555,756
AMELIA COUNTY PUBLIC SCHOOLS	$	2,147,806	19%	$	1,748,573

In MA, 42 districts have spent <20% of ESSER 3 and have >$300K remaining.

Edunomicslab.org/esser-spending

District Name	Total ESSER III Allocation	% ESSER III Spent	$ Remain
Brewster	$ 603,994	0%	$ 603,994
Eastham	$ 336,071	0%	$ 336,071
Frontier	$ 344,372	0%	$ 344,372
Kingston	$ 323,458	0%	$ 323,458
Nauset	$ 1,296,588	0%	$ 1,296,588
Oak Bluffs	$ 1,474,244	0%	$ 1,474,244
Silver Lake	$ 449,514	0%	$ 449,514
Tisbury	$ 504,074	0%	$ 504,074
Upisland	$ 391,943	0%	$ 391,943
Amherst Pelham	$ 1,657,509	10%	$ 1,486,719
Boston Day and Evening Aca	$ 2,665,833	10%	$ 2,399,250
Boston Green Academy Hora	$ 3,199,056	10%	$ 2,879,151
Mashpee	$ 1,494,801	10%	$ 1,345,321
Southern Worcester	$ 1,043,402	10%	$ 937,557
Everett	$ 13,453,831	11%	$ 11,934,283
Leominster	$ 11,193,495	11%	$ 9,971,186
Phoenix Academy Public Cha	$ 1,611,352	11%	$ 1,426,592
Academy Of the Pacific Rim (	$ 2,233,749	12%	$ 1,958,009
Boston Renaissance Charter	$ 5,125,444	12%	$ 4,523,506
Chelsea	$ 20,732,065	12%	$ 18,325,571
Lexington	$ 1,202,445	12%	$ 1,052,666

District Name	Total ESSER III Allocation	% ESSER III Spent	$ Remain
Palmer	$ 2,694,278	12%	$ 2,369,195
Phoenix Charter /	$ 683,829	12%	$ 600,705
Greater Lowell	$ 5,010,267	13%	$ 4,345,062
Winchester	$ 761,798	13%	$ 664,625
Easton	$ 1,081,867	14%	$ 931,731
Phoenix Academy	$ 817,998	14%	$ 703,554
Wellesley	$ 982,642	14%	$ 840,955
Boston	$ 276,339,451	15%	$ 235,588,474
Fitchburg	$ 16,664,400	15%	$ 14,144,994
Holliston	$ 437,615	15%	$ 372,329
UP Academy Cha	$ 4,883,530	15%	$ 4,142,148
Acushnet	$ 688,273	17%	$ 573,328
Fall River	$ 39,152,523	17%	$ 32,321,395
Sizer School: A N(	$ 715,749	17%	$ 593,515
Southeastern	$ 1,771,710	17%	$ 1,469,516
New Bedford	$ 47,482,075	18%	$ 39,055,566
Springfield	$ 156,313,280	18%	$ 127,803,947
Sudbury	$ 503,034	18%	$ 410,083
Danvers	$ 2,406,611	19%	$ 1,943,081
Hadley	$ 436,236	19%	$ 354,196
Lawrence	$ 54,108,599	19%	$ 43,693,004

*Data through 10/13/23

Which other LEAs are at risk of not spending all their ESSER 3?

We’re worried about LEAs with <20% of ESSER 3 spent and large remaining balances (e.g., >$250K). For example:

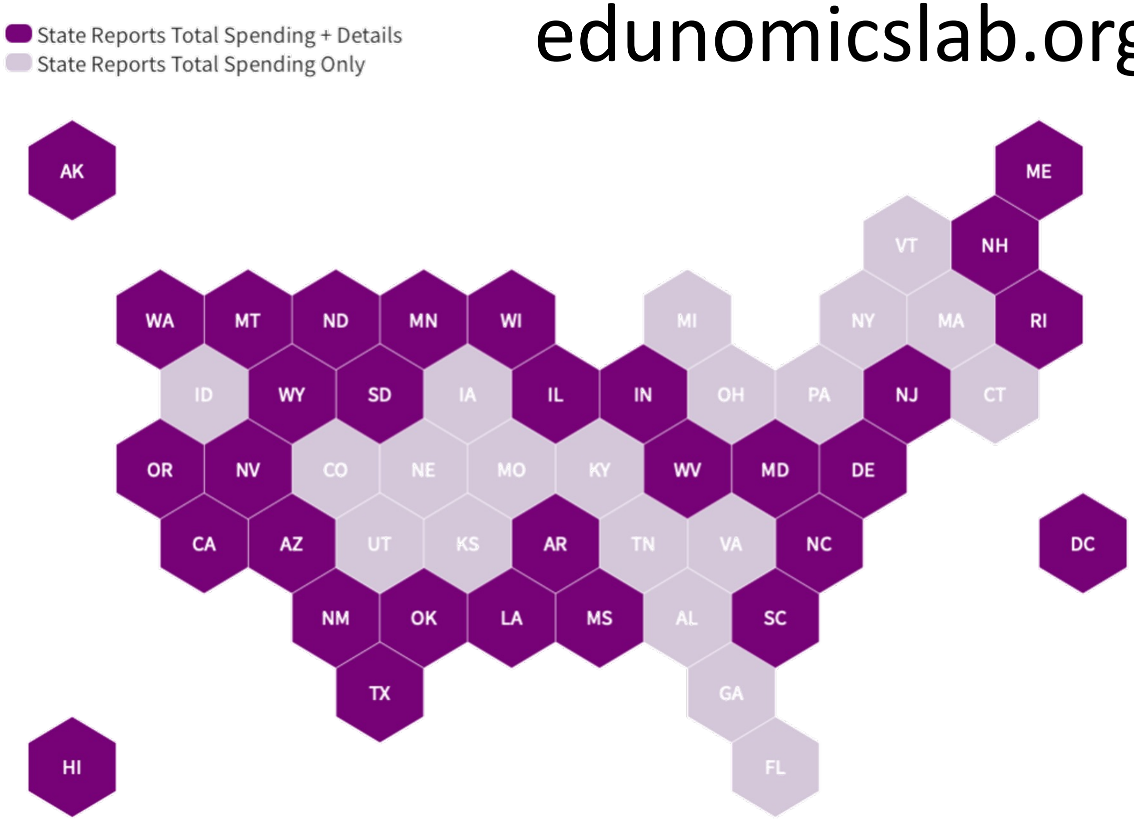
State	# of Districts at Risk
AL	33
AK	3
AR	1
CA	72
CO	7
CT	10
DC	12
FL	5
GA	6
ID	7
IL	65

State	# of Districts at Risk
IN	39
IA	1
KS	37
KY	23
LA	13
ME	33
MA	44
MI	8
MS	20
MO	24
MT	29

State	# of Districts at Risk
NE	52
NV	1
NH	30
NJ	115
NM	5
NY	237
NC	12
ND	8
OH	40
OK	51
OR	21

State	# of Districts at Risk
SC	24
SD	25
TN	5
TX	5
UT	9
VT	12
VA	14
WA	5
WV	4
WI	38

Where to look to find out how much ESSER a district has spent (and how much remains) and what if any data exists on how that money has been spent?



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5 SEAs without timely data:
KS, KY, MN, NY, WY

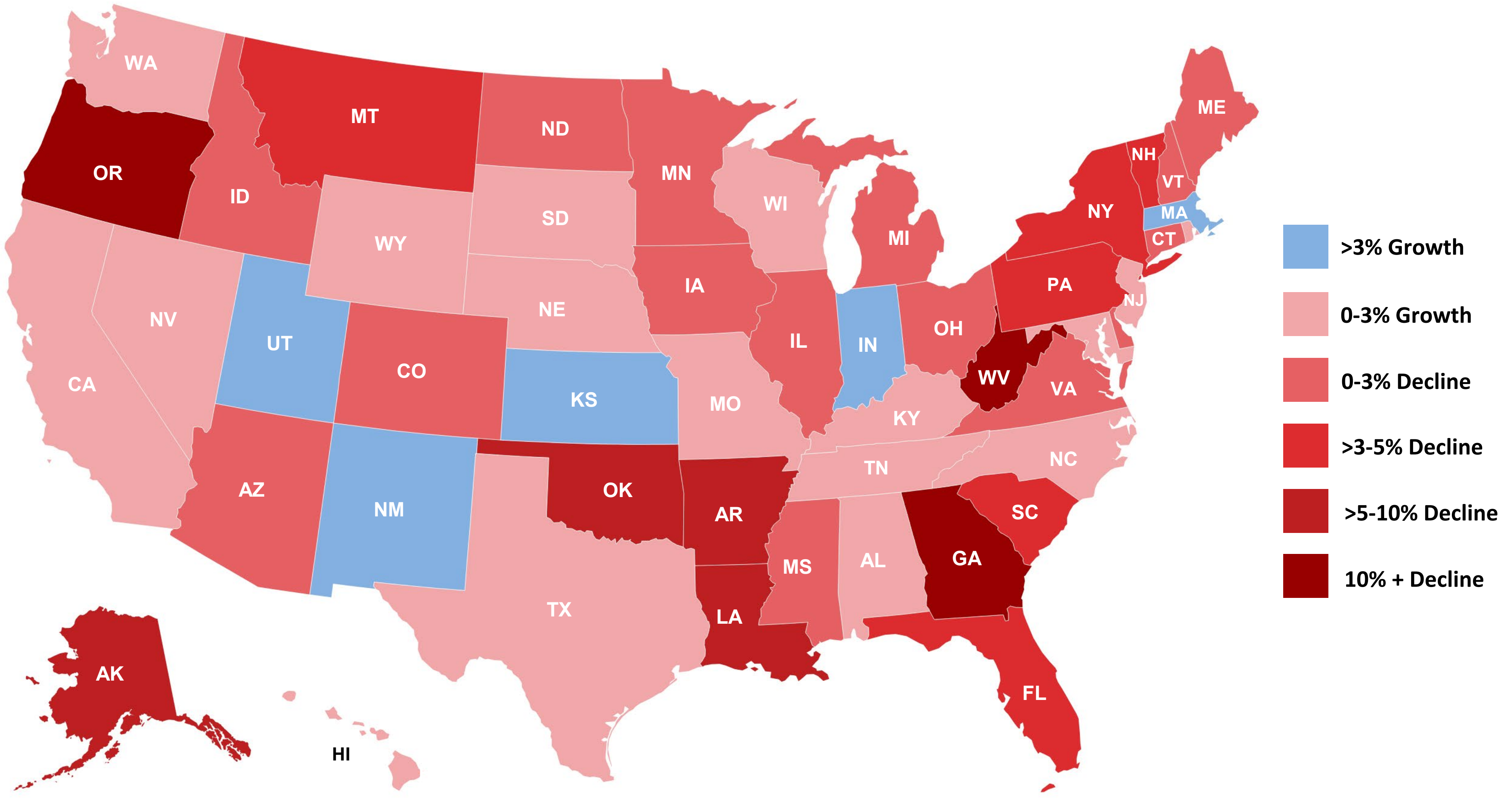
4 SEAs have trackers not updated since spring:
AZ, FL, MD, PA

A changing market: Where might money be flowing?

- Wealthier districts are less impacted by the cliff (since they got very little ESSER)
- Some states have stronger revenues, meaning districts may feel more modest effects.

After nearly a decade of strong growth in state revenues (5-6% for education), FY23 to FY24 growth in GF revenues is slowing*

MA, MD, TN and a few others are expanding K12 investments



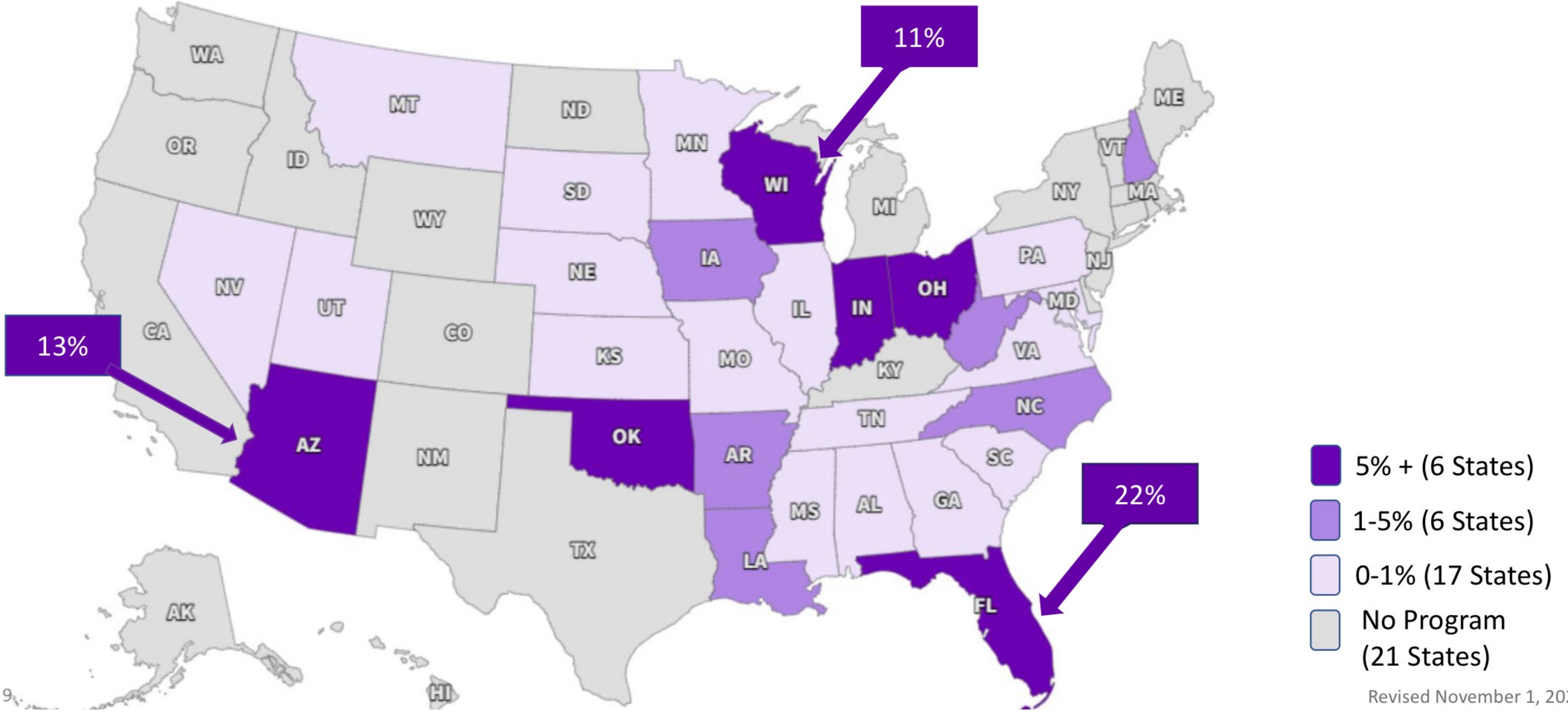
Updated November 10, 2023

A changing market: Where might money be flowing?

- Wealthier districts are less impacted by the cliff (since they got very little ESSER).
- Some states have stronger revenues, meaning districts may feel more modest effects.
- Homeschoolers or private schools may be new markets, especially where ESAs are growing.
  - ESAs (Ed Savings Accounts) provide public funds to families for use in private schools, homeschooling, or other learning options.

Public funds in private options (e.g., ESAs, Vouchers) is growing in selected states.

Portion of **state** education dollars* in private options is currently highest in Florida



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Q&A

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