

What the financial turmoil means for K-12 education



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

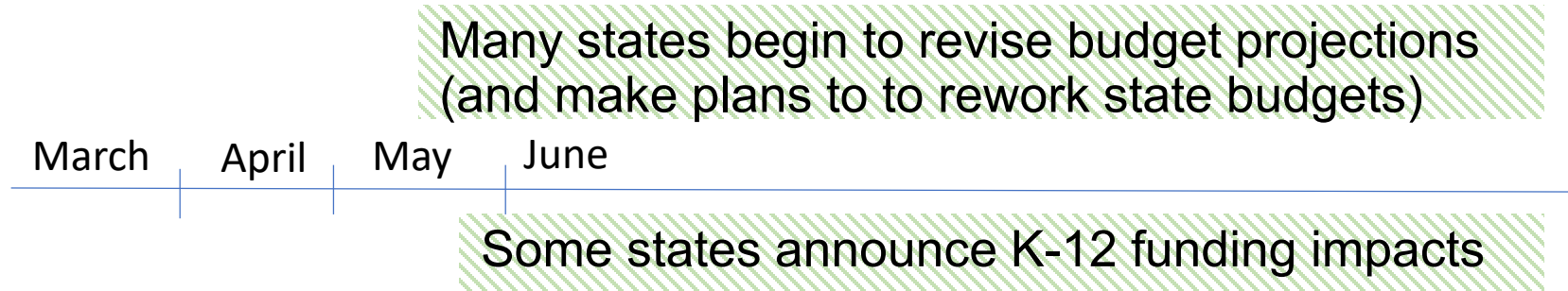
Economy falls. 41M unemployed.

Schools go online. Spending is steady.

CARES Act
\$270pp

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

Unfolding
now
(unevenly) in
many states



Still yet to
unfold

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

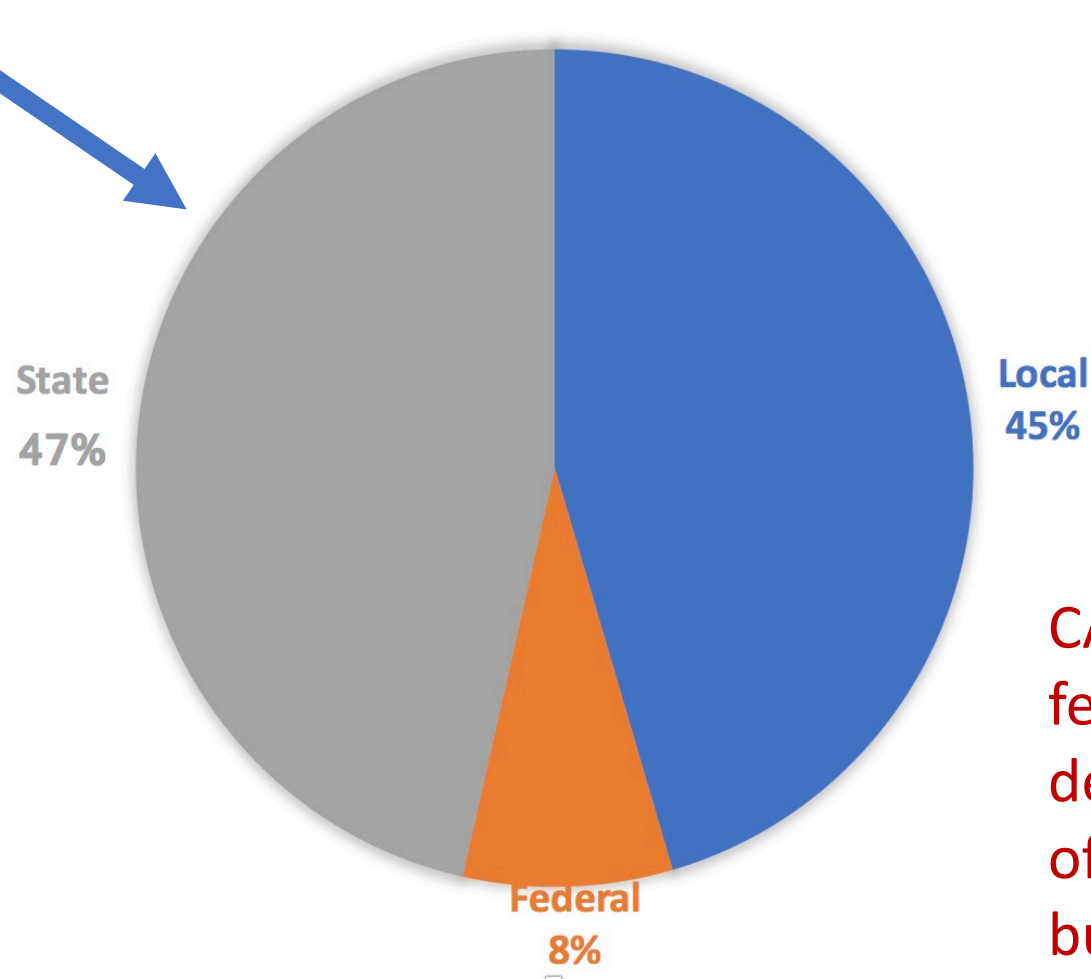
Decisions re fall schooling delivery

Decisions re more federal funding for schools



State funds are the portion most at risk. But, a gap in state revenue only affects the state-funded portion of total K-12 revenues.

Example: A 10% cut to state funds would yield a 4.7% cut to an “average” LEA (where 47% of funds come from the state). Where state funds represent a higher share, the impacts could be more pronounced.



CARES Act increases federal funding, delivering an average of ~ 2% increase to LEA budgets



Whammy #2: LEA obligations climb faster in an economic downturn

Widespread layoffs.
Industries stop hiring.
Some spouses unemployed



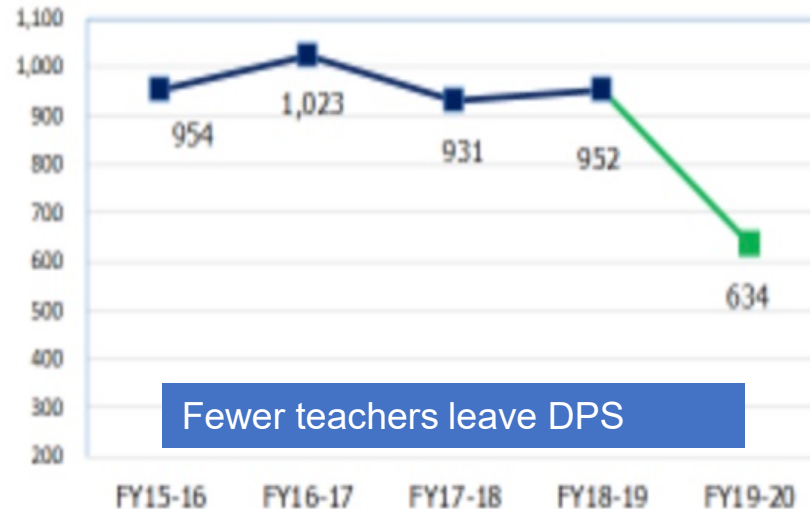
Current teachers stay in their current positions (teacher attrition drops)



More teachers earn another year of step and column raises (4-7%) (and COLAs if already negotiated)



LEA's payroll goes up faster than normal with little way to absorb it

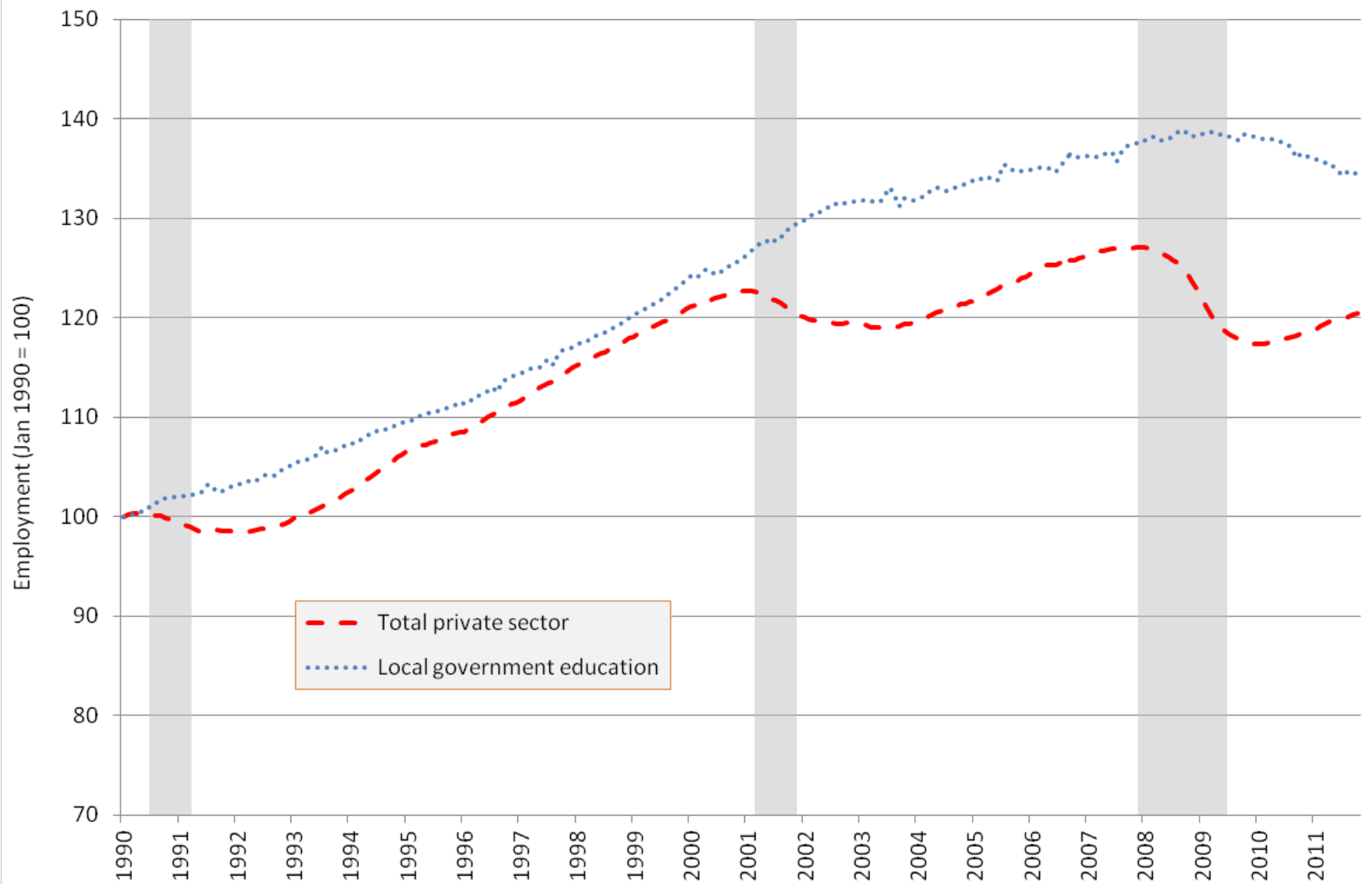


Where systems have COLAs planned for FY20-21, these increased costs could force more cuts elsewhere.



During a recession, public ed tries 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.



With less warning, LEAs will make hurried cuts:

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

Early activity

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

Lots of trimming

Negotiate

Propose:

- Alter benefits
- Salary adjustments
- Reduce days/furloughs

Depending on success above

A few furloughs

Labor reduction

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



Doesn't take much to destabilize K-12 finances

- LEAs 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 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 LEAs 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)

- Which would you prefer?
- Which would parents prefer?
- Which would teachers prefer?

*Unlikely to survive legal challenge without major policy overhaul



RIF policies matter.

LIFO policy means more teachers lose jobs when layoffs happen

An illustration using costs from a large urban district

Need to cut \$30M?

=

With LIFO = 460 junior teacher layoffs
(\$65,140 salary + benefits)

=

Cut only senior teachers = 224 layoffs (\$133,720 salary + benefits)

Because of LIFO, >150 more teachers lose their jobs

=

Mix of teachers: 306 teachers with a cross section of experience.



MESSAGING PRACTICE: Time to warn the community that budget cuts are coming. What to say if you want to build trust:

Use dollar figures: “We must cut \$400 dollars per pupil. If we exempt one team/department from cuts, we’ll have to cut more from another.”

Don’t wait for firm numbers: “Our school will have fewer dollars to spend next year although our numbers are not yet firm. As we prepare budgets for 4 and 8% cuts, we will need to make hard choices to leverage our reduced dollars to do the most for students.”

Invite participation: “We want to hear from all involved and will commit to weekly calls to keep all in the loop as these budget impacts unfold.”

Emphasize students in decision-making: “We aim to reduce layoffs in order to preserve services for students”

Keep principals in forefront: “Our principals are working to protect what matters most for their students”



5 things that make this time different:

1. It is so sudden. Little time to absorb cuts.
2. 41M in other industries have already been furloughed/laid off. K-12 isn't hurt as much as many other industries.
3. Technology is seen as a solution, not a budget cut.
4. Constraints on delivery for this fall could have cost implications.
5. Teachers/staff anticipate full compensation (regardless).

For more information or resources visit: EdunomicsLab.org
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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

