

# Financial Turmoil during a Pandemic



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# POLL

In the coming year, my district's budget will:

- A. Increase
- B. Remain flat
- C. Decrease by  $<5\%$
- D. Decrease by  $>5\%$
- E. Don't know



# 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)

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

Some states announce K-12 funding impacts

Impacted districts revise their 2020-21 budgets

Decisions re: fall schooling delivery

Decisions re: more federal funding for schools

*Delays here  
could force  
deeper cuts  
later*

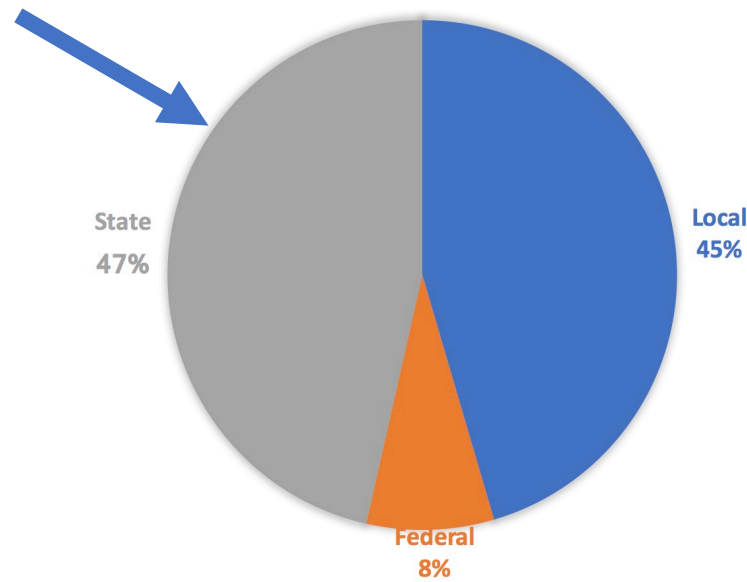
Unfolding  
now  
(unevenly) in  
many states

Still yet to  
unfold



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

Example: A 10% cut to state funds would yield a 4.7% cut to the average district (where 47% of funds come from the state)

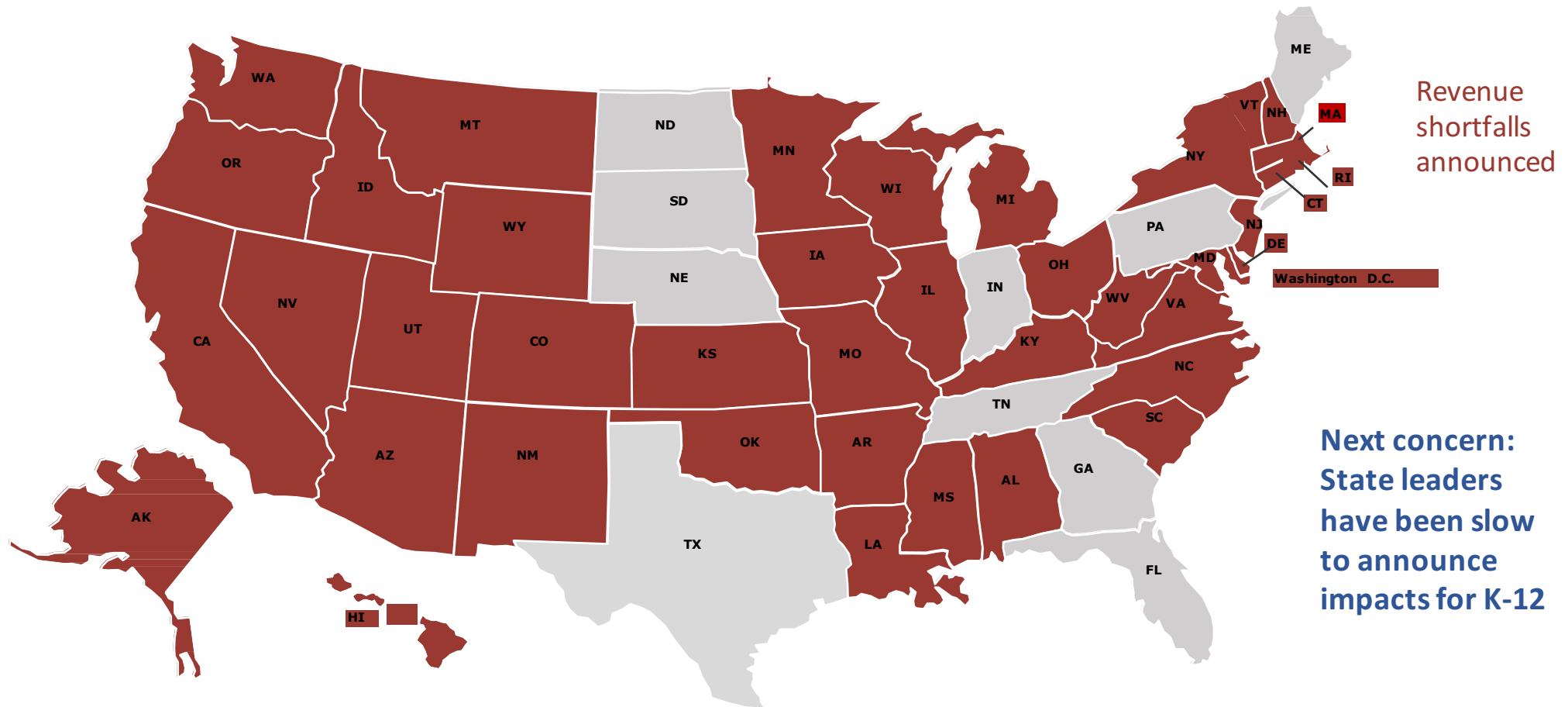


Local funds tend to come from property taxes, which are more stable

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



As state revenue impacts become clearer, more states revise revenue projections



Source: Center on Budget Policy and Priorities, June 2020 <https://www.cbpp.org/research/state-budget-and-tax/states-grappling-with-hit-to-tax-collections>  
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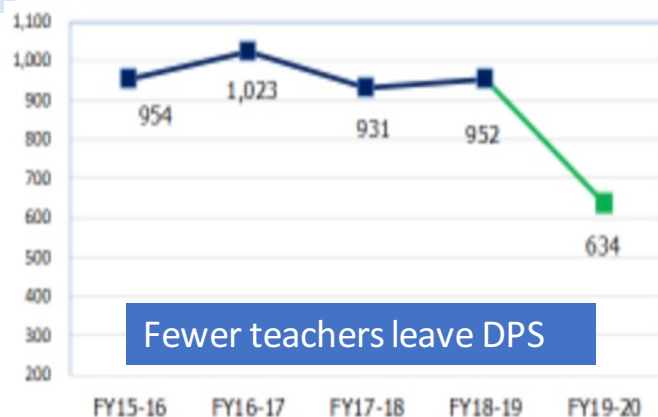
## Whammy #2: District obligations climb faster in an economic downturn

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



Does your district or state have raises (or COLAs) planned for FY20-21? How much are typical step/column increments?

## 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**



How are financial conversations  
going in your district?





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Racine school district abruptly ended its contract with its bus company, effectively laying off all bus drivers

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Portland Public Schools furloughed all staff one day a week through July to save money (for added instructional days next year).

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Hawaii Governor proposes 20% pay cuts for all state employees (includes teachers)

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The Rochester school board permanently closed five schools

With less warning, districts 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
- Early retirements

### *Trim from the top*

- Trim contracts, payments to community partners
- Eliminate PD days, prep time
- Cut central admin positions
- Squeeze supplies & non-labor expenses
- Consolidate dept.'s

### *Negotiate*

Propose:

- Alter benefits
- Salary adjustments
- Reduce days/furloughs

### *Labor reduction*

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

*Depending on success above*

Explaining tradeoffs can help clarify why unpopular cuts are considered: e.g., "Reducing the COLA means we lay off 72 fewer teachers."

POLL: Which of the following cost equivalent options do you prefer as an emergency mechanism to reduce labor costs:

- A. Across-the-board temp. salary reduction (say, 5%) *Holds school hours constant, but reduces salary*
- B. Across-the-board furloughs (say, 10 fewer days) *Holds salary constant, but reduces time in school*
- C. Layoffs (say, 4% of employees)
- D. All retirement costs shifted to teachers\*

How districts make cuts matters for students

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

\*Unlikely to survive legal challenge without major policy overhaul



# 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.

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

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?

At the moment, districts assume they pay and financial implications are substantial.





Trust in districts declines during budget cuts. Communication helps.

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

Don’t wait for firm numbers: “Our district 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. Please communicate directly with your principals and we will be in regular communication with them.”

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

Keep principals in forefront: “We are engaging with our principals on how to protect what matters most for their students.”



# POLL

What is your biggest concern of financial strain ahead:

- A. Elimination of key services (preK, SEL, etc.)
- B. Losing ground on equity
- C. General disruption caused by budget cutting
- D. Anger from stakeholders with cuts
- E. Other — tell us in the chat



## What can districts do to “flatten their curve” (reduce the funding cliff)

### In the short term:

- Protect reserves
- Freeze hiring now!
- Partial furloughs
- Refrain from making promotions (VPs, lead teachers, etc.)
- Reduce 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 staffing cuts
- Close under-enrolled schools?
- Consider early retirement options?

e.g.: “Raising employee health contributions means we can avoid layoffs.”



## 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. K12 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).

# Q & A

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Visit [EdunomicsLab.org](https://EdunomicsLab.org) for resources on how financial turmoil is impacting K-12

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