

SCHOOLS IN CRISIS

Counting on Communities

Engaging Communities on the Looming Fiscal Crisis for Schools

BY CHRIS ADAMS

SCHOOL DISTRICTS ACROSS THE COUNTRY

are anticipating widespread reductions in revenue starting in 2024, compounded by declining enrollments and cost inflation. Although districts have seen this fiscal cliff on the horizon, it still represents a shock and requires a reckoning with stakeholders over what to cut.

As finance teams present next year's budget to school boards, they must start negotiating difficult trade-offs, which could mean leaner dental and vision plans, reductions in force, ending the school year early, or other potential cuts. Some cuts may require gathering public input on the decision making.

"2024 to 2025 looks like the single biggest one-year financial hit that school systems have ever seen—and that's why we're calling it 'the bloodletting,'" said Marguerite Roza, research professor and director of the Edunomics Lab at Georgetown University. [See Exhibits 1 and 2.] "We're using that kind of dramatic language because it is dramatic."

When districts don't prepare for such shifts, they make rushed cuts, Roza said. This can escalate to postponed raises, changes in benefits and furloughs, or even larger staff layoffs, including letting go of core teachers. [See Exhibit 3.] "That's what it looks like when it's hurried. But this time, we actually have some time, because we could see this coming."

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How we got here

The future fiscal cliff started coming into view in 2022, a plush year of four percent more spending than normal. The 2023 to 24 school year was still in the green with more growth than normal, Roza says, but that outlook changes in 2024 to 25, when the \$190 billion in pandemic relief funds that schools received in recent years will end.

For example, the Elementary and Secondary School Emergency Relief (ESSER) funds that have buoyed education budgets for the past few years will end abruptly. Most worrisome are districts that used ESSER funds for recurring financial commitments, budget backfilling, or permanent raises. Also at risk are urban districts and districts that were closed longer. At the same time, declining birth rates are decreasing enrollment numbers. Moreover, high inflation and a slowing economy mean less funding for schools.

“The economy looks like it’s slowing a bit,” Roza said. “That’s the murkiest picture out there, and it’s a state-by-state deal. But when states have less money, they can’t grow their revenues for education as quickly.”

EXHIBIT 1 Atypical financial shocks

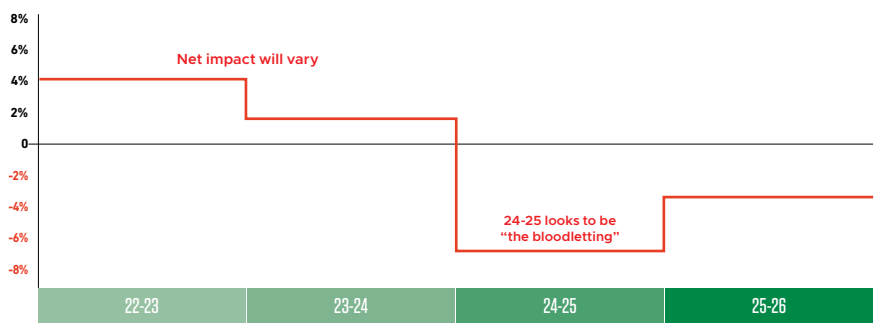
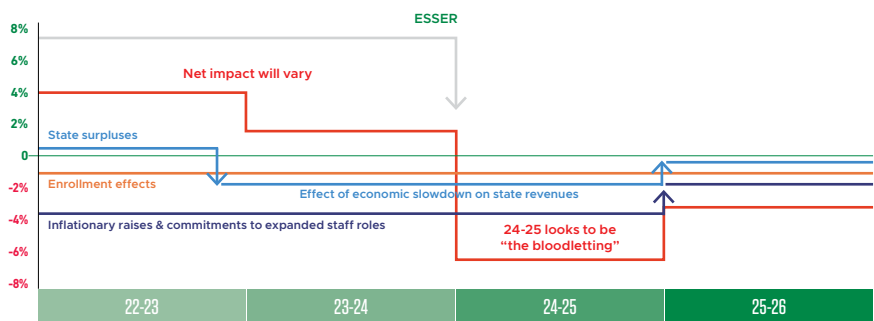


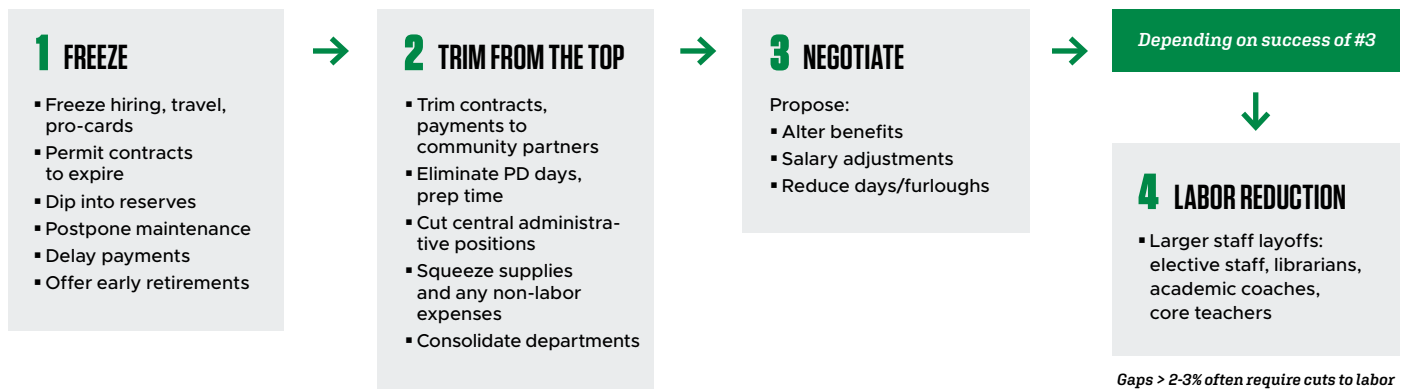
EXHIBIT 2 Timing and magnitude of atypical financial effects on typical budgets



Credit: Edunomics Lab at Georgetown University



EXHIBIT 3 Four stages of budget cutting



Essential conversations

When cuts run this deep, they are likely to be felt directly by students and their families, which is why it's essential to start a fact-based, two-way conversation with stakeholders sooner rather than later.

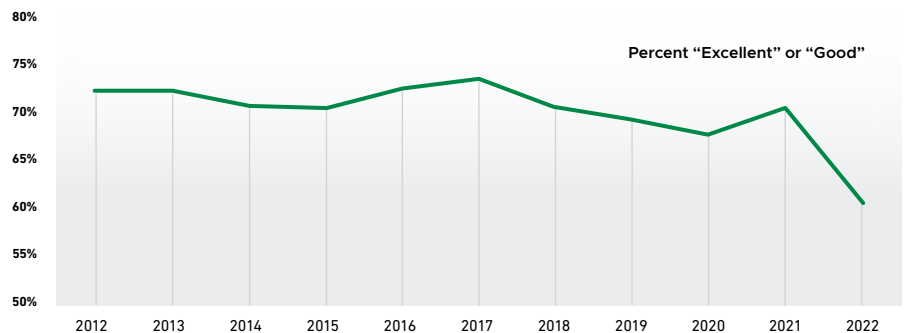
With trust in government institutions decreasing, it's a conversation that requires more context and transparency than ever before. For the last ten years, Polco has tracked trust and satisfaction in K through 12 education. [See Exhibit 4.] The data show that while more than 70 percent of residents rated their K through 12 agencies as excellent or good in 2012, ten years later—and with the global pandemic likely deepening the impact—that number had dropped to approximately 60 percent.

Starting these conversations with residents and stakeholders well before annual budgets are finalized helps districts align their residents and stakeholders on the most important priorities. Then, when cuts happen, there is more collaboration and support.

Steps to ease budget impact

Districts that do more than host a public budget hearing to engage their communities can work through the challenges, moving toward a softer landing.

EXHIBIT 4 Resident satisfaction ratings for K through 12 education



To help address the looming budget issue, Carol MacLeod, a senior project manager with GFOA, outlines some of the most important steps in the Smarter School Spending Framework [at gfoa.org]. The GFOA initiative develops strategies to align resources with student goals. Keeping student success as the most important priority will help districts align their goals.

Key steps in the Smarter School Spending Project initiative include:

- Establish a partnership between finance and instructional leaders and eliminate silos between departments.
- Develop policies and principles that guide the budget process.

- Analyze current levels of student learning. If you don't know where students are, how can you determine where they need to be?
- Develop a communication strategy. Clarify your message, define your audience, identify your messengers, and tell your story—or someone else will.

"It's also vital to your district to know your own data," MacLeod said. "Most districts believe their budget is aligned with the goals and objectives outlined in their strategic plan. There's a very good chance that this is incorrect. An honest and thorough evaluation of where funds are being spent is essential to determining what changes you may want to make."

EXHIBIT 5

Which would you choose to close a four percent budget gap?

1. Cancel a planned COLA and freeze step and column raises
2. RIF (reduction in force) four to six employees per 100:
 - a) Reduce non-core classes (arts, music, AP)
 - b) Reduce specialists (counselors, nurses, librarians, social workers)
 - c) Increase all class sizes by four, reducing classroom teachers
 - d) Close three of 50 schools and eliminate staff proportionately
3. End the school year two weeks early
4. Select substantially leaner health/dental/vision plans and raise employee contributions by \$1,800

Successful public engagement

Interactive online simulation tools that allow residents to provide input on tough budget tradeoffs allow school districts to align resources with community needs more strategically—and maybe even come out of the crisis stronger.

Some school districts are using new tools that simplify the budgeting process for residents and help leaders with prioritization and decision making. Focusing on the “Three C’s” of effective budget engagement—context, constraints, and consequences—helps districts approach their budget missions with the right tools.

Cherry Creek School District, located in a suburb of Denver, Colorado, had a projected \$50 million structural deficit three years in the future. David Hart, former Cherry Creek School District chief financial officer (CFO) and current Los Angeles Unified School District CFO discussed options with hundreds of district leaders, parents, concerned residents, and elected officials. They used an interactive online budget simulation tool to show district leaders the potential impact of different decisions.

The simulation allowed participants to add or reduce costs in certain areas, based on the school’s income and revenue. They could decrease the staffing ratio, mental health resources, salary, and benefit increases to eventually break even. They could also see how they could increase their revenue. For instance, a \$60 increase in property tax for a \$400,000 home in Cherry Creek would net the district an extra \$2 million. (See Exhibit 5.)

The simulation gave people who were not professional budgeters or administrators a vantage point into what was at stake and let them see the costs associated with each option. They then got to help make the trade-offs.

Cherry Creek School District went on to pass the mill levy to keep the services they valued.

“It is very difficult to revenue your way out of a problem in certain communities,” Hart said. Cherry Creek is one community where passing a mill levy increase is possible, but most districts would have trouble, “and so part of that is how do you do more with less—a common phrase, but difficult to achieve.”

Chris Adams is President of Balancing Act for Polco.

