PACE

COMMENTARY

Navigating the Education Budget Crisis Following COVID-19

How the State and Districts Can Make Smart Cuts

AUTHOR

Michael Fine | Fiscal Crisis & Management Assistance Team

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As Governor Newsom recently announced, California faces a massive budget gap next year due toreduced tax revenues. Because schools are funded through taxes, the shortfall to schools is currently projected to be $19 billion over two years hough this preliminary number may yet climb given the new July tax filing deadline. This is by any measure a huge financial hit to school districts, particularly as districts are contemplating the added costs to open schools and operate in the as-yet-undefined physical distancing environment.

California learned a great deal in the 2008 crisis—lessons that can be applied now—and school districts are in a stronger starting position. While there is no single fix, multiple measures, applied thoughtfully, can be taken to help mitigate shortfalls.

California has 1100 school districts and 1200 charter schools, all of which have different resources, community priorities, approaches to education, and student needs. Every district will be impacted by the COVID-19 budgetary crisis; proposed reductions are 10% to the LCFF and upwards of 50% to other programs, with special education budgets actually increasing. Every district will have unique sets of resources and options for responding. While there will be pressures towards across-the-board cuts to district budget categories, applying a one-size-fits-all model for all schools would unnecessarily toss aside existing commitments and priorities. Rather, districts should look carefully at their commitments, capabilities, and assets while the state should assess its own options that facilitate the best possible solutions for each district.

OPTIONS FOR DISTRICTS TO CONSIDER

Rely cautiously on reserves: Districts overall are currently in a strong position with regard to their reserves, which amount to roughly $12 billion across the state—17% of the budget. But if tax revenues continue to fall these will be needed further down the road; moreover, reserves are unevenly distributed across districts. Relying exclusively on spending the reserves is not an option, though they will surely need to be brought into play to varying degrees.

Reduce staff: Districts spend 85–90% of every dollar on people, primarily teachers. Personnel provide vital services to students and thus reducing staff through layoffs is undesirable and difficult. While the typical layoff deadline for certificated employees has passed, the seldom available July-August layoff window will likely be an option for districts this year. On the other hand, classified staff can be laid off at any time with 60-day notice—but these are positions with lower salaries, thus accounting for less of the budget and requiring much broader layoffs to make a significant financial difference. Attrition, whether through normal means or through incentives, is a more humane way to reduce staff. Additionally, retirement incentives can be structured as an alternative to layoffs and it is not too late to make this happen before the start of the school year. Options for mid-year retirement incentives are available but very limited due to pension reform statutes. Overall, these are difficult calculations that each district must make individually.

Truncate the school year: Schools could move to a 175-day school year. This would effectively be an unpaid furlough for teachers, which may be preferable to layoffs and salary rollbacks. While some of those days can be taken out of existing teacher preparation or noninstructional days, more would need to be found elsewhere and would thus require legislation. In the May Revision, the governor promotes the idea of a longer day or year to compensate for learning loss; shortening the school year moves in the opposite direction.

Sell property: Some districts have surplus property they can sell, though this is of course not true across the board.

Postpone nonessential expenditures: Given that textbook purchases often make up a significant portion of supply budgets, a moratorium on implementing new curricular frameworks and thus new textbook adoptions would save money. Technology purchases are often discretionary during challenging fiscal times, but not now, with the need for continued distance learning practices—which, of course, come with their own unique financial obligations.

OPTIONS FOR THE STATE TO CONSIDER

Defer payments: California has the option to defer payments owed to districts from one year to the next, often late June to early July. This allows the state to account for these as payments for the next year even though local schools budgeted for them in the current year. Eventually the difference must be made up, but the state undertook this measure from 2008 to 2012 and knows how to navigate it. Although deferrals are better than actual cuts, they must be balanced in amount and duration to ensure districts have adequate cash resources to pay their bills.

Request federal support: Because the state must have a balanced budget, action from the federal government is critical in supporting schools. The CARES act is a good first step and additional legislation is being currently crafted. This new legislation needs to include funding for schools. The governor's May Revision proposal depends heavily on federal assistance.

Make specific program reductions: Money from local property taxes and state funds that by law makes up the minimum guaranteed funding for schools is calculated through a formula and includes funding for the general per-student funding formula and for particular programs and grants (e.g., career technical education). Maintaining as much of the general purpose funding as possible is essential for school success. With general purpose funds, districts can choose to fund specific programs as needed.

Adjust pension contributions: The rate of employer pension contributions increases by $1 billion on July 1st. The state could freeze or roll back the rate increase and permit districts to pay at current or previous levels for a few years.

Modify contributions to facility maintenance: If the state participates in funding school facilities for a district, the district then has to contribute 3% of its budget to their maintenance through a Routine Restricted Maintenance Account. The state could lower or waive this commitment and free up that money for other more vital needs, bearing in mind that there is a labor consequence as most of those funds are used to pay maintenance staff, and they are moreover unevenly distributed across districts.

CONCLUSIONS

All of the above are puzzle pieces that can be put together to help districts navigate the imminent budget crisis, and while none will solve the problem alone, or even come close to it, together they add up to a significant ability to respond.

There are two keys to success:

1. Individual districts need to be able to respond based on their particular needs, assets, and commitments. The state should not, therefore, impose a one-size-fits-all model.

2. Districts and the state need to be thoughtful in their decision making given that all that is done to address the crisis now and over the coming years of recovery will need to be undone once we have moved through it and the state can return to its precrisis financial commitments. There needs to be an exit strategy.

While California schools face a difficult time, it is critical to remember that they also have some room to maneuver—independently and with state support—in addressing the financial difficulties ahead.

Michael Fine is the CEO of Fiscal Crisis & Management Assistance Team (FCMAT), whose primary mission is to help California's local K–14 educational agencies identify, prevent, and resolve financial, operational, and data management challenges. He has a long history in governmental relations, working closely with policy makers in Sacramento on behalf of California's students.

This commentary expands upon points presented at the PACE webinar "COVID-19, Education Funding, and School District Budgets: Mitigating Negative Impacts in California" on April 28, 2020. A recording of the webinar is available here.

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PACE
Policy Analysis for California Education

Stanford Graduate School of Education
520 Galvez Mall, Suite 444
Stanford, CA 94305
Phone: 650.576.8484

edpolicyinca.org