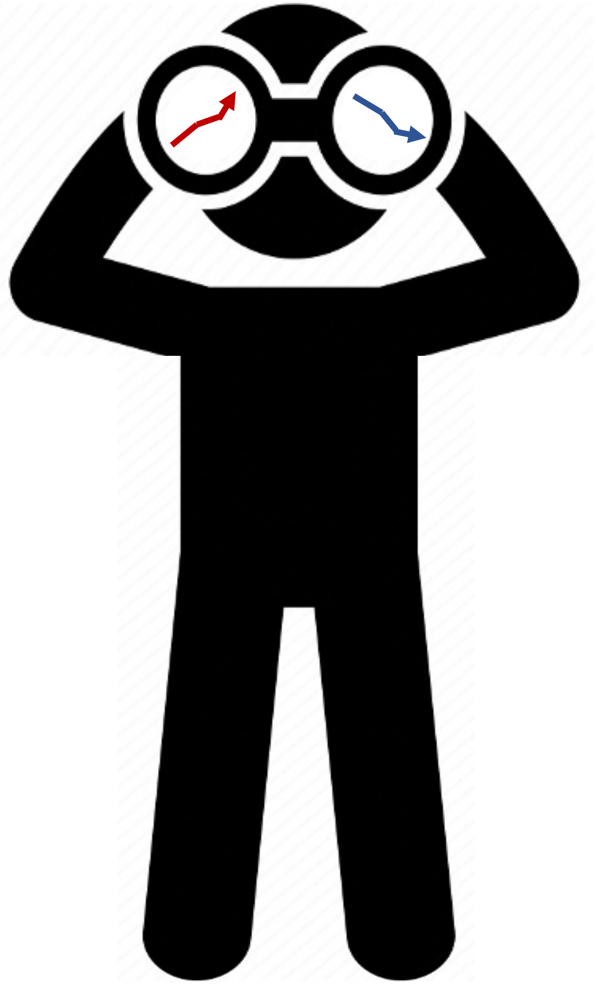
Here comes the ESSER fiscal cliff. Lots to cover during this budget season and beyond

April 4, 2024



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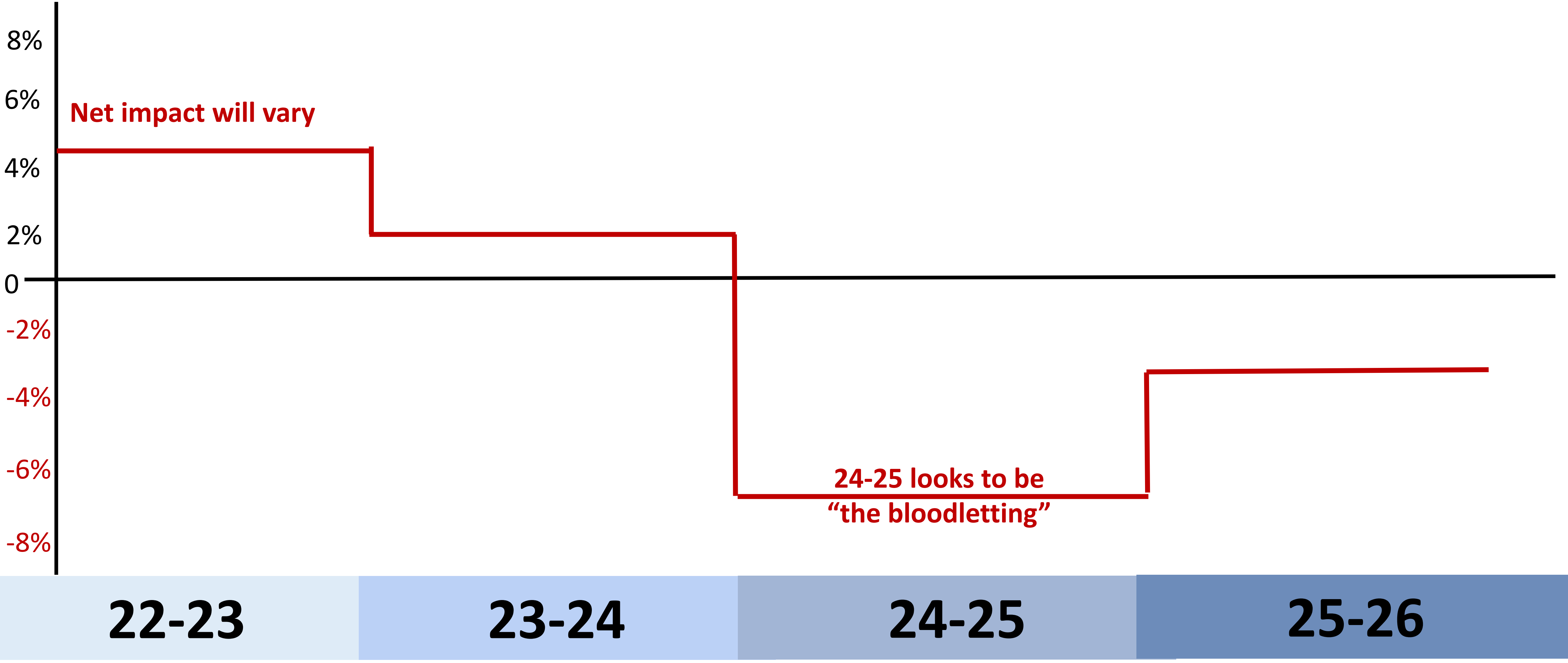
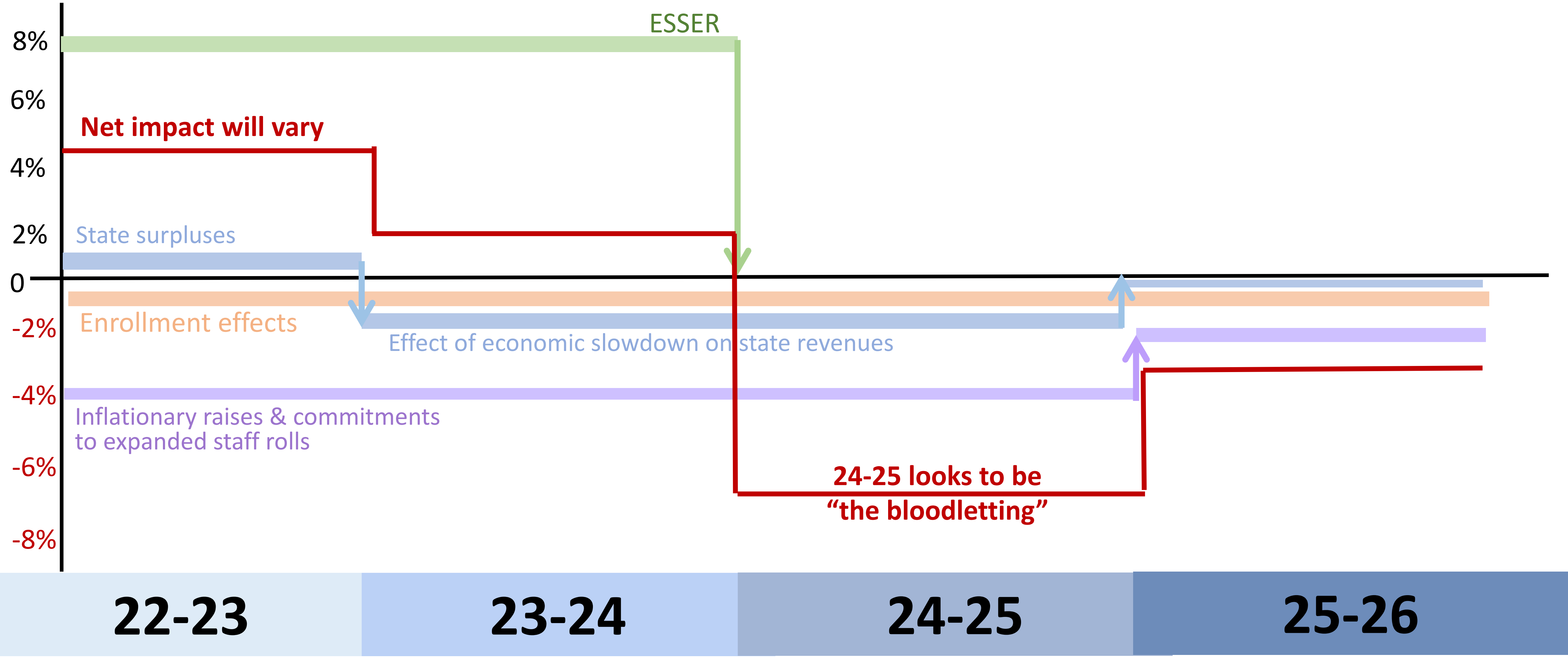
The net impact of four atypical financial shocks on public education



Four atypical financial shocks coming to a district near you...

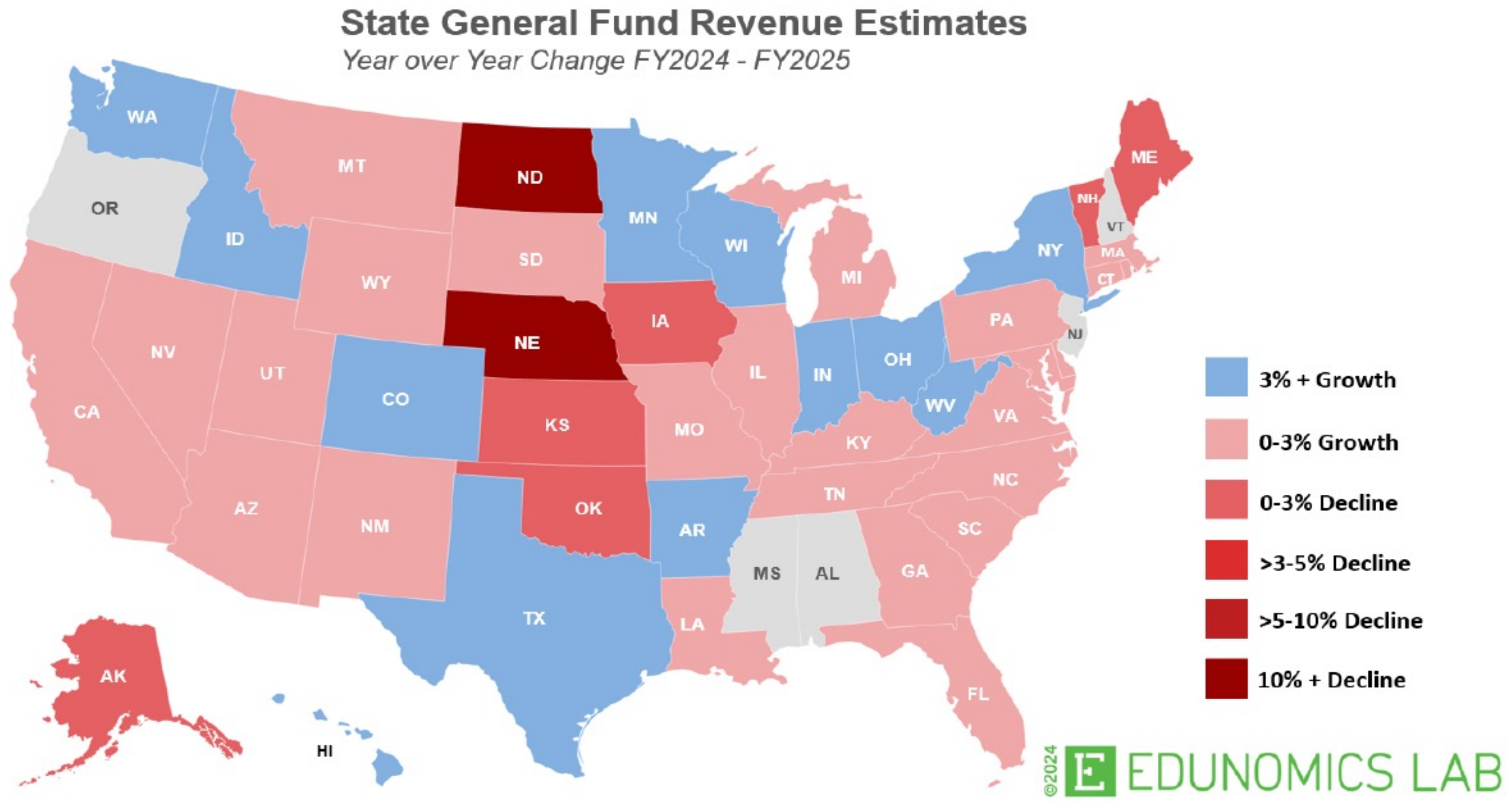
1. ESSER is boosting spending but then ends abruptly 9/24
   - Most at risk: Districts using ESSER for recurring financial commitments via budget backfilling, new hires or permanent raises.
2. Enrollment declines mean fewer revenues in the long run
   - Most at risk: Urban districts. Districts closed 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).

Timing and magnitude of atypical financial effects on typical budgets



State revenue likely can't replace ESSER: FY23 to FY24 growth in state general fund revenues is slowing

After nearly a decade of strong growth in state ed revenues (>4%),
FY24-25 growth in General Fund revenues is slowing.*



Where will the cliff be *steepest*?

High poverty districts

- ✓ Got more ESSER per pupil
- ✓ Left a larger share of ESSER to spend down in the last year.

➔ Financial disruption will hurt our most vulnerable students.

Low poverty districts

Where will the cliff be *steepest*?

Districts that used ESSER for pay raises or to hire more staff

- ✓ Districts struggle to downsize labor costs

Districts that used ESSER for facilities projects

➔ That said, facilities upgrades don't close gaps in math

Where will the cliff be *steepest*?

Districts with declining enrollments

Districts with growing enrollments

- ✓ Enrollment drives state/local $ creating a double whammy
- ✓ Districts hate hate hate closing schools

Some districts have eye-popping ESSER III sums left to spend

Stockton, CA = 13% spent ($136M remaining)

Bakersfield City, CA = 20% spent ($112M remaining)

Boston, MA = 44% spent ($155M remaining)

Springfield, MA = 28% spent ($112M remaining)

Newark, NJ = 38% spent ($110M remaining)

Camden, NJ = 30% spent ($80M remaining)

Milwaukee, WI = 4% spent ($488M remaining)

Green Bay Area, WI = 18% spent ($36M remaining)

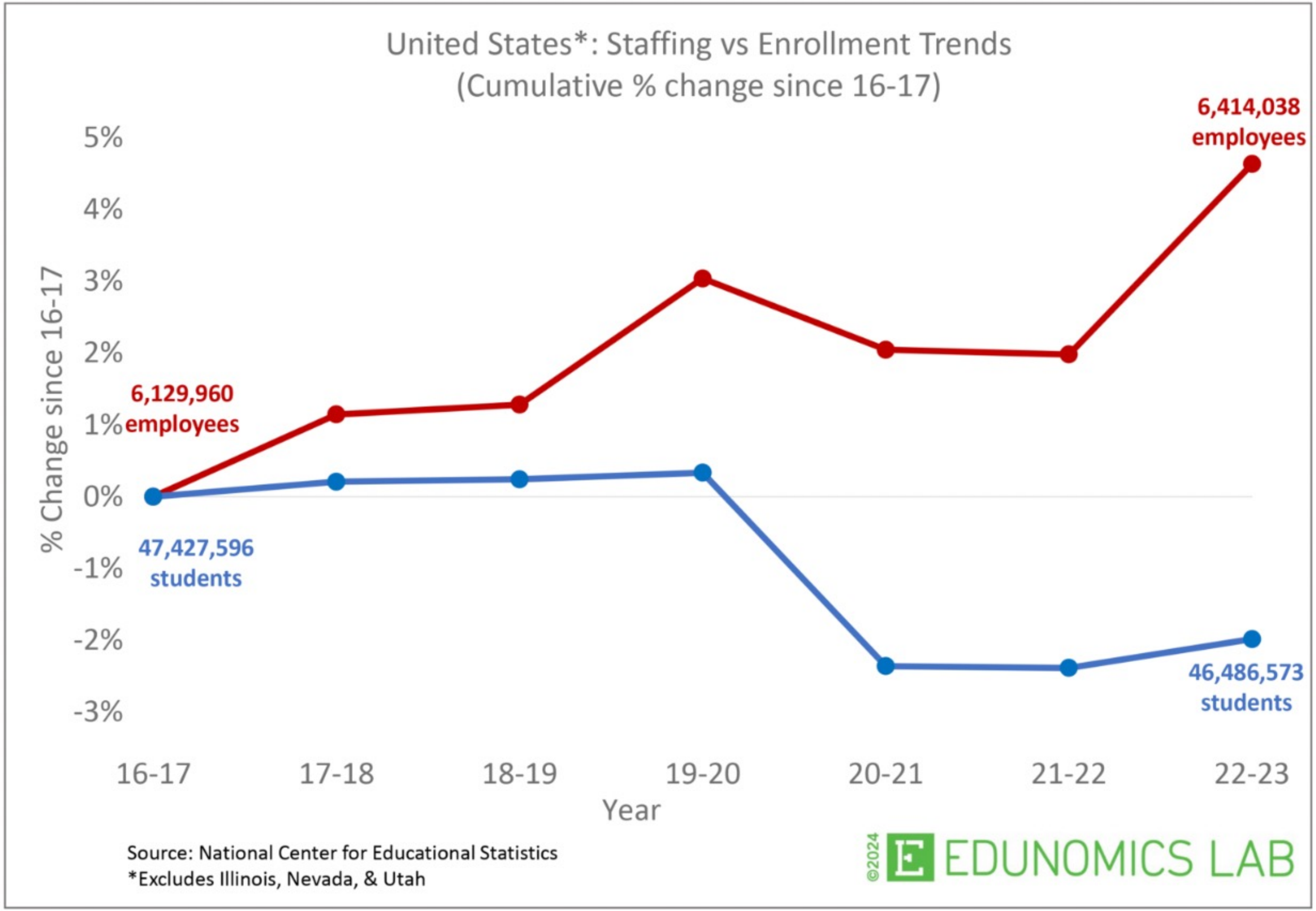
Visit our ESSER Expenditure Dashboard to find district-by-district spending
https://edunomicslab.org/esser-spending/

If districts don't spend ESSER down by 9/2024, $ goes back to the feds

Can SEAs do more to support (or nag…or badger…) districts in these last 6 months?

CA as of 12/31/23
MA as of 3/17/24
NJ as of 12/19/23
WI as of 1/4/24

On average, districts have added staff while losing students.



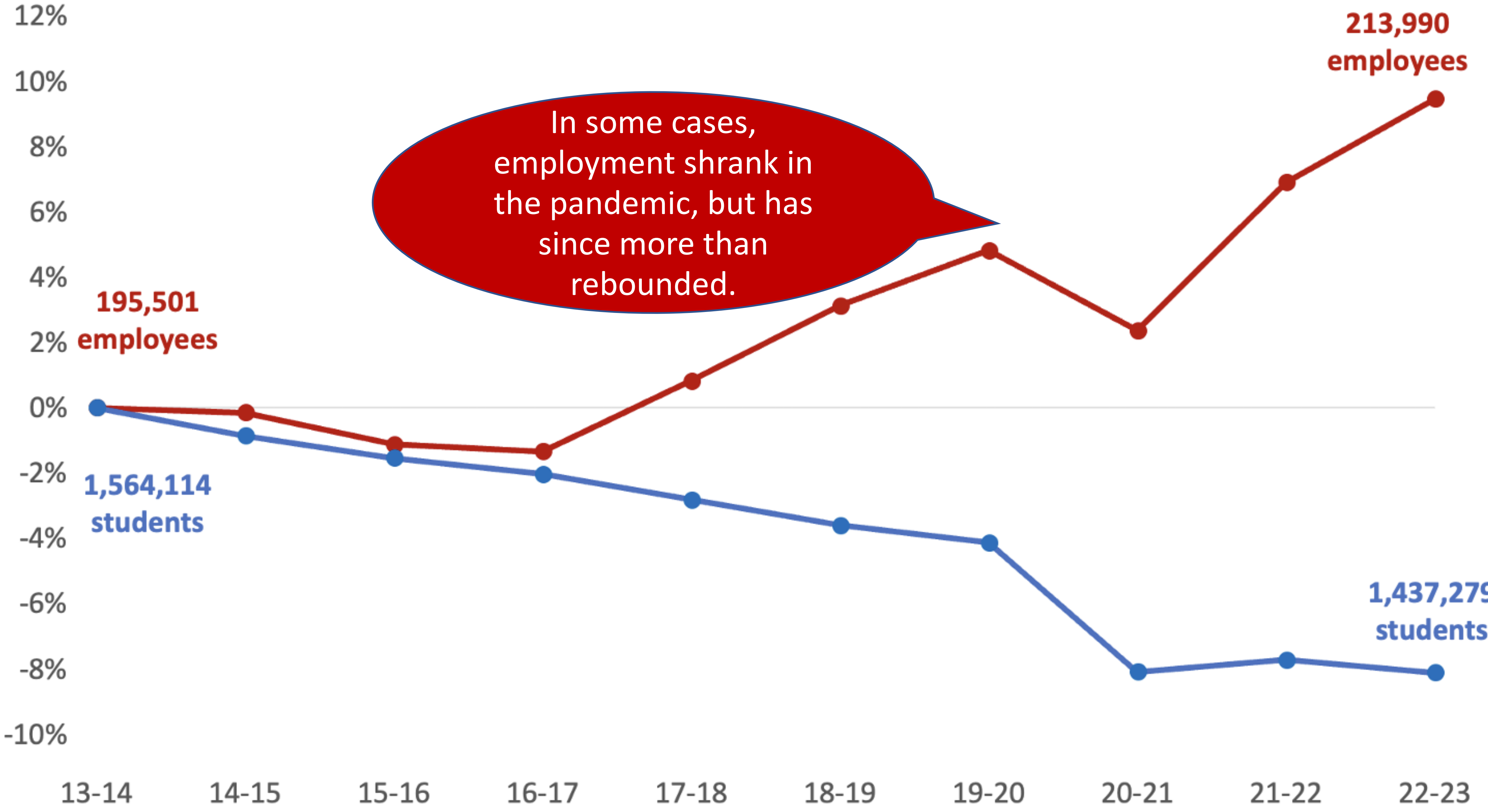
In some districts, ESSER funds became a revenue source that worked to backfill budgets during enrollment declines.

View many more district or state graphs or make your own at edunomicslab.org/staffing-v-enrollment-trends

In Michigan staffing is up **9%**, while enrollment is down **8%** over the last decade

Michigan:

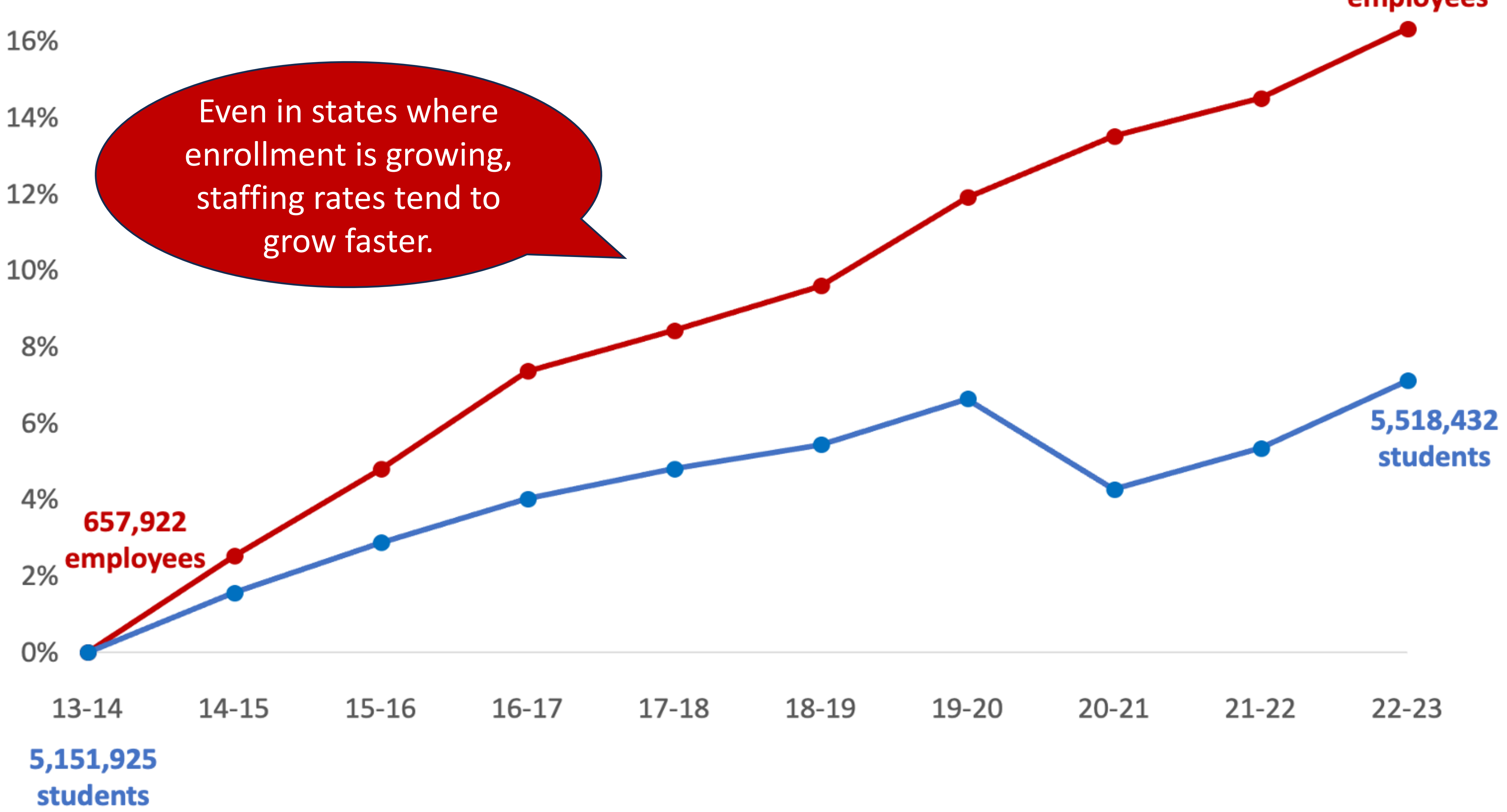
Cumulative percent change in staffing and enrollment since 2013-14



In Texas, enrollment is up **7%**, while staffing is up **16%**

Texas:

Cumulative percent change in staffing and enrollment since 2013-14



Timeline for *known* budget cutting decisions

Finance team (FT) projects 24-25 budget from 23-24

FT works on budget tradeoffs

Last day to notify staff of layoffs

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

2023-24

2024-25

1st Bd budget work session: set priorities.

2nd Bd budget work session: solidify choices.

Final board vote on 24-25 budget

Bloodletting

Last month to spend ESSER on salaries

What options are being considered?
Hint: there's always more than one option possible.

Which choice permits recovery to continue?

With ESSER ending, a district must cut $60K from a lower performing school.

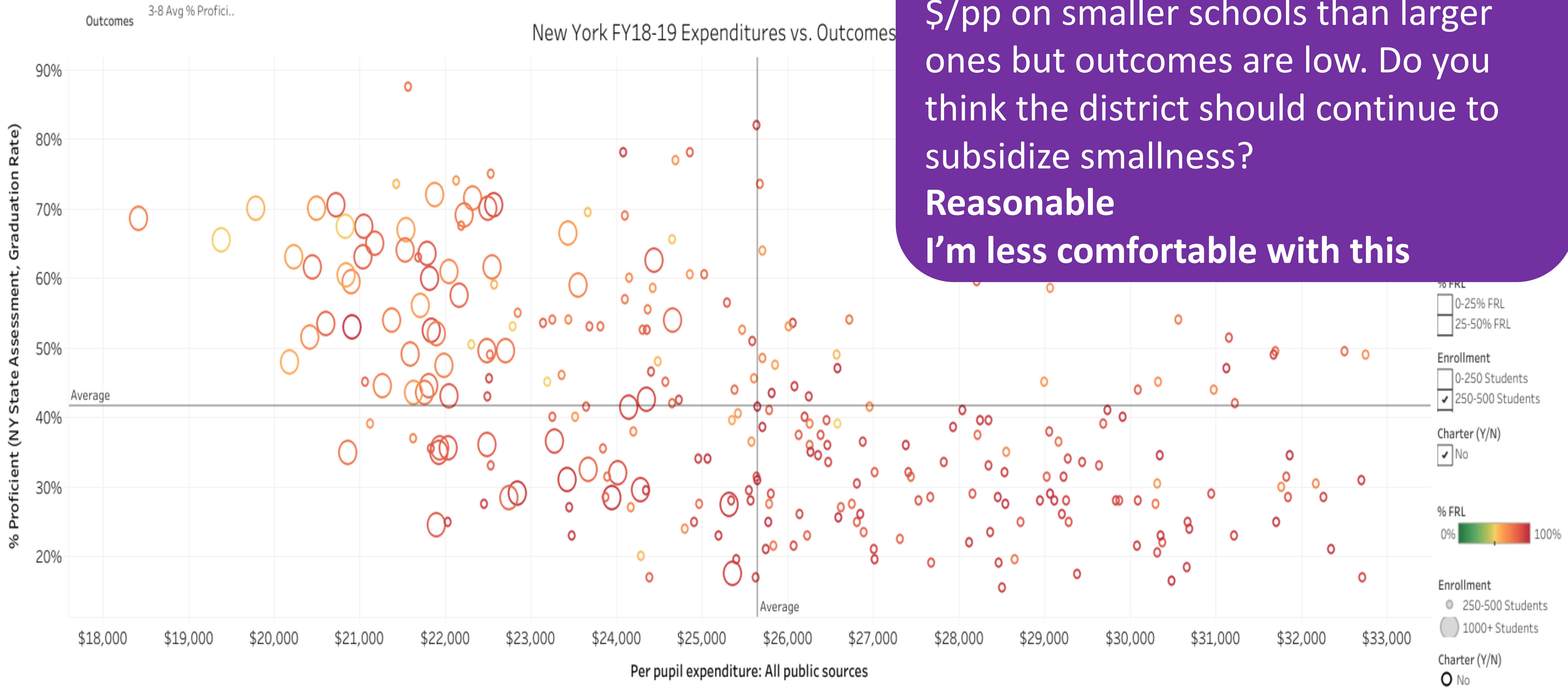
POLL **Which would you prefer?**

A. Cut the reading coach ($100K) and invest $40K via a tutoring vendor instead.
B. Eliminate a 2nd grade teacher ($100K), raising 2nd grade classes from 18 to 24, and reinvest the $40K savings in summer boot camps.
C. Eliminate two aides that help in math classes (saving $80K) and invest $20K savings in Khanmigo (an AI-driven math tutoring app for use in class).
D. Eliminate the librarian ($100K), and pay $40K for an aide to cover the library.

POLL: NYC spends substantially more \$/pp on smaller schools than larger ones but outcomes are low. Do you think the district should continue to subsidize smallness?

Reasonable

I'm less comfortable with this



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4 stages of *hurried* 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