

K-12 Public Schools Financial Crisis

What is the extent and causes of the financial crisis for schools?

Districts are on the **brink of financial crisis**. Their reserves are low. Their costs are increasing faster than their revenue. They face tremendous lay-offs even without state funding reductions in the next two years.

- For 2008-09, 36 districts appear close to a financial emergency. These districts, with a total operating value of \$2 billion, budgeted less than a 2% unrestricted reserve. In 2007-08, districts with less than 2% in reserve had a total operating value of \$1 billion. *Large and small districts have very low reserves.*
- 6 districts are on Binding Conditions (the process where a district that cannot balance its budget and is put under state-imposed financial and management conditions); 3 more districts are evaluating whether or not they can balance their 2008-09 budget.
- Districts have tapped out their levies. In the 90's districts were using 75% of our levy capacity; they now are using 92% of their levy capacity. Local funds (largely levy funds) are used up and cannot continue to subsidize state responsibilities.
- Districts are provided with **unequal salary allocations** from the state to hire staff; districts must subsidize state allocations in order to attract and retain staff.
 - In 2007-08 the state paid between 59% and 84% of the salary cost of Principals and administrators and 84% to 96% of the salary cost of classified staff that are ostensibly "state funded".
 - Districts subsidize state salary allocations by about \$370 million per year.
- Districts use local funds to subsidize their basic education non-staff **operating costs** (utilities, insurance, supplies, textbooks and curriculum) by about \$544 million. The state only pays for about 50% of non-salary operating costs.
 - The state provides enough operating funding for districts to afford to buy new textbooks or curriculum every **18** years (all grades, content areas).
 - For 46 districts and **17,000** students, the amount that the state provides for ALL non-salary operating funding is less than they spend on utilities and insurance alone. Leaving \$0 in state resources for supplies, textbooks, technology, and all other operating costs.
- Districts subsidize basic education ("to-from") **pupil transportation** by \$125 million a year.
- Our class size is the third highest in the nation and state resources provide too few school nurses, counselors, and librarians. *The state funds a K-3 class size of 25.8 and a grades 4-12 class size of 28.6.*

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What level of budget reductions can we expect in school districts for the 2009-10 school year BEFORE state reductions?

- 16 districts, serving 27% of the student population, will reduce their budgets by \$25 million. Projecting the experience of these 16 to all districts, this totals \$94 million for 2009-10.
- Why? The exact scenario for each district is unique; the most common mix of issues is:
 - Just about all districts must respond to increases in utilities and insurance costs that will grow faster than the total (non-employee related costs) NERC allocation. All other NERC costs may grow also (supplies, audit costs, textbooks, etc).
 - Just about all districts must increase their subsidy of pupil transportation.
 - Some districts report that in the 2008-09 school year, they made 1-time expenditures from their reserves, but now cannot sustain these decisions and must cut programs.
 - Some districts must cut programs and maintenance level costs to accommodate greater costs for supplemental salaries and employee contracts, and/or health care.
 - Some districts must build their reserves that are already too low.
- How many teachers does this equate to? We cannot quantify this. Districts have “non-classroom” options for reductions and will try to protect the classroom. But for most districts, several years of reductions leave them few non-classroom options. In gross numbers, the \$94 million would support about 1,100 mid-career teachers. In reality, the teachers most recently hired (frequently reflective of new emphasis on math and science), will be the first lay-offs.

How much will districts receive in federal funds and how will it help school districts for the 2009-10 and 2010-11 school years?

- The federal recovery and stabilization act includes \$350 million for the Title I (\$129 million) and Special Education (\$221 million) programs; to be used over the next 27 months.
- Federal funding does not free up levy funds and cannot fully offset cuts explained above.
 - Districts will be able to re-hire some teachers in their **Title I** programs, expand these programs and provide more help to struggling students. However, district Title I allocations can only be used in Title I-eligible schools. In general, Title I funding does not “free-up” levy funds and cannot off-set cuts explained above.
 - **Special Education:** Teachers must have a special education endorsement and therefore, fewer teachers from the general classroom can be re-employed with new federal funding. Some districts can free-up levy funds with new federal resources; for these districts this is some help. Many districts cannot. The bottom line is that the capacity to free-up levy funds is unequal and based on unique district circumstances and history.