# REDUCING DISTRICT BUDGETS RESPONSIBLY

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Brief No. 4

This brief is one in a series aimed at providing K-12 education decision makers and advocates with an evidence base to ground discussions about how to best serve students during and following the novel coronavirus pandemic. Click here to learn more about the EdResearch for Recovery Project and view the set of COVID-19 response-and-recovery topic areas and practitioner-generated questions.

## CENTRAL QUESTION

**What are the key considerations for districts that may need to reduce spending and potentially lay off employees?**

## KEY INSIGHTS

### Breaking Down the Issue

- State revenues will drop for districts in many states. The extent of revenue loss will vary considerably across districts and could be partially mitigated by the federal response.
- If the federal government does not offset state revenue losses, districts will need to cut spending on salaries and benefits.
- School spending cuts negatively affect students' educational outcomes and apparently neutral budget choices often have disproportionate effects on traditionally underserved students.
- The COVID-19 pandemic creates substantial new demands on schools that will likely require a reallocation of resources.

### Strategies to Consider

- Some budget reductions affect student learning and well-being more than others, and the choices often come with tradeoffs. Considering the tradeoffs carefully can help reduce the negative effects of budget cuts.
- Delaying pay raises or furloughing non-working staff can reduce layoffs. Research shows layoffs have negative consequences for students.
- Economic downturns can provide opportunities for districts to bring new, differently qualified employees into the workforce.
- Economic downturns can create incentives for multiple actors to negotiate changes that might have been too difficult during better economic times.

### Strategies to Avoid

- Policies that base layoffs on teacher seniority rather than effectiveness (often known as "Last-in, First-out" or LIFO) come with a series of negative consequences.
- Although shifts in retirement benefits could have long-term benefits, these shifts are unlikely to solve current problems.

## BREAKING DOWN THE ISSUE

### State revenues will drop for districts in many states. The extent of revenue loss will vary considerably across districts and could be partially mitigated by the federal response.

- **State revenues represent the greatest source of volatility in district budgets.**
  - In 2016-17, 47% of public education funding came from state sources ($346 billion). In 22 states, more than 50% of the revenue came from state governments.
  - State revenues are projected to be nearly 12% smaller in FY 2021 due to collapsing sales and income taxes, which are more volatile than local property taxes.
  - Unlike the federal government, almost all states have laws in place that require them to balance budgets, usually over two years. As a result, many governors and state lawmakers will make cuts either in the new fiscal year or for 2021-22.
- **When state revenues fell during the Great Recession of 2007, employment in K-12 schools dropped and class sizes rose; schools that relied heavily on state funding were more vulnerable.**
  - One study found that nearly 300,000 public school employees lost their jobs from the beginning of the recession until early 2013. It took five years for state and local revenues to return to pre-recession levels.
  - Schools heavily dependent on state funds were more vulnerable than those that relied on support from local taxes since state revenue sources such as income and sales taxes are particularly sensitive to market fluctuations.
- **Federal aid is offsetting some losses but unevenly, and future aid is still uncertain.**
  - As of today, federal aid directed to schools for the COVID-19 crisis has been only 25% of the aid provided in the Great Recession. The American Recovery and Reinvestment Act (ARRA) provided nearly $100 billion for education during the Great Recession, substantially offsetting state funding losses.
  - During the Great Recession, ARRA's State Fiscal Stabilization Fund sent funds to states based on population, then states used their own school finance formulas to distribute funds to districts, but the Coronavirus Aid, Relief, and Economic Security (CARES) Act provided more funds to districts with higher shares of students in poverty.

### If the federal government does not offset state revenue losses, districts will need to cut spending on salaries and benefits.

- **Revenue loss will be greater than can be addressed by non-labor cost reductions alone.**
  - Salaries and benefits account for more than 80% of district expenditures. Purchased services account for just 11% of current expenditures and some non-labor spending cannot be cut.

### School spending cuts negatively affect students' educational outcomes and apparently neutral budget choices often have disproportionate effects on traditionally underserved students.

- **School resources are particularly important for lower-income students.**
  - A series of research studies over the past decade shows that increases in school spending positively affect student test scores and long-term earnings. Boosting per-pupil spending by 10% reduces low-income children's chances of poverty in adulthood by about six percentage points.

- Research shows that school spending cuts during the Great Recession reduced student achievement and college attendance rates. Students in high-poverty areas were more adversely affected by the spending cuts than those in low-poverty areas. One recent study also demonstrates that uncertainty about revenue reductions – even when the uncertainty doesn't result in actual budget cuts – has negative impacts on student outcomes.

- **District decisions around staffing dollars can exacerbate inequities between schools.**
  - Seniority-based staff reductions, even if they are across-the-board and not intended to affect some students more than others, may nevertheless hit hardest for students with the greatest needs because they often attend schools with less experienced teachers.
  - Seniority-based staff reductions will also likely result in the loss of educators of color since they are more likely to have been recently recruited into the field. Several recent studies find that teachers of color are particularly beneficial for students of color.
  - Certain layoff strategies that include cutting support services, classified staff, and unfilled positions differentially affect schools with more of those positions. Some research provides evidence of the positive effects of support staff on student outcomes.
  - Relying on parents to serve as stand-in teachers for students increases inequality both because home resources vary and because increasing demands on the home put further burden on households with financial constraints.

## The COVID-19 pandemic creates new demands on schools that will likely require a reallocation of resources.

- **The health demands on schools will be substantial.**
  - Schools will need additional staff to clean and sanitize and to monitor student and staff health.
  - Schools will also need additional materials such as personal protective equipment, hand sanitizer, and thermometers.

- **Schools will continue to need to use non-traditional modes of instruction.**
  - A well-defined computer-aided instructional program that emphasizes individual instruction can improve algebra test scores for low-performing students.
  - Access to online instructional materials and support for teachers can improve student achievement.
  - However, online learning without live teacher interactions or other instructional supports can lead to negative outcomes.
  - Summer learning programs can help offset time lost.

- **Schools may need more adults to operate in-person schools.**
  - The traditional class size and teacher roles may be difficult to accommodate with new health demands. Many plans for reopening schools include class size reductions.
  - Teachers may be out more for health reasons. The CDC recommends implementing flexible sick leave policies and practices that enable staff to stay home when they are sick, have been exposed, or are caring for someone who is sick.

## STRATEGIES TO CONSIDER

### Some budget reductions affect student learning and well-being more than others, and the choices often come with tradeoffs. Considering the tradeoffs carefully can help reduce the negative effects of budget cuts.

- **Other briefs in this series focus on which investments are likely to be most beneficial. For examples, see the briefs on school practices to address learning loss and academic supports for students with disabilities.**
- **Resisting salary reductions could protect deserved raises, but could ultimately force higher layoffs and a reduction in class time or larger class sizes. In OECD countries, increases in teachers' salaries came with similar increases in the average class size.**
- **Reducing extra-curricular activities and support services could reduce impacts on class sizes but negatively affect student engagement and academic performance.**
- **Cutting after-school programs could help balance budgets, but would leave students more vulnerable outside of school without access to support from other adults and peers.**

### Delaying pay raises or furloughing non-working staff can reduce layoffs. Research shows layoffs have negative consequences for students.

- **Timing matters. Immediate action can save resources even though state budget decisions may be delayed.**
  - Districts have multiple approaches available for labor cuts including wage freezes, salary reductions, reductions in health benefits, delayed promotions, furloughs (reduce days/hours or temporarily lay off some workers), and shared work.
  - Even before districts have a sense of the magnitude, they could draft budgets to better understand the options and potential tradeoffs and even begin to make cuts. For example, in the spring, Portland Public Schools in Oregon, cut one day out of the school week, closed the administrative buildings on Fridays, froze hiring, cut back on purchasing, and instituted a 20% pay cut for teachers, encouraging teachers to apply for partial unemployment through the CARES Act to make up for the cut in their paychecks. They estimate that these cuts will save more than 66 jobs next year.
- **Large-scale reductions in force have negative consequences on teacher effectiveness even for the individuals who retain their jobs.**
  - A study of teachers in Washington state and the Los Angeles Unified School District who kept their jobs but received potential layoff notices as a result of large-scale reduction-in-force (RIF) policies found that these teachers were significantly less effective in subsequent years than those teachers in the district who did not receive the notices. The difference in teacher effectiveness was equivalent to the difference between a first-year teacher and a teacher with three to four years of teaching experience.
  - A related study of the same districts found that mass teacher layoffs created teacher churn and disruptive turnover beyond what was necessary to meet spending targets.
  - A study of classrooms in New York City found that teacher turnover reduced student achievement beyond the effect of losing individual teachers. The study found significant impacts of disruptions associated with turnover in both math and English-Language Arts, with particularly large effects in schools with large populations of low-performing and Black students.

## Economic downturns can provide opportunities for districts to bring new, differently qualified employees into the workforce.

- **A diversified labor force, including recent college graduates not traditionally employed in schools, can provide part-time individualized instruction to students at potentially lower costs.**
  - Deep job losses for the youngest workers across the economy is an opportunity to employ college graduates who could provide part-time instructional services and are at lower COVID-19 mortality risk.
  - Research suggests that City Year partner schools, where AmeriCorps members provide additional supports to students, were likely to show greater improvements on academic outcomes and socio-emotional development than non-partner schools.
  - Small group tutoring tied to classroom content can improve learning outcomes for students who are struggling the most.
- **Investments in recruiting and selecting new hires are even more valuable during recessions.**
  - New hires made during previous recessions brought more effective teachers into the workforce.

## Economic downturns can create incentives for multiple actors to negotiate changes that might have been too difficult during better economic times.

- **Changes that are difficult in financially stable times may face less resistance now because the alternative cuts may be even less appealing (e.g. rethinking post-employment health benefits could help protect student services).**
  - The public sector has a history of making a change when budgets are tight (e.g., terminating redundant or ineffective programs).
- **Contracts reduce flexibility in reallocating resources, but recent examples show that renegotiation is possible.**
  - Some districts have already taken steps to renegotiate collective bargaining agreements given the substantial change in context (e.g. Spokane School District suspending workload provisions).

# STRATEGIES TO AVOID

## Policies that base layoffs on teacher seniority rather than effectiveness (often known as "Last-in, First-out" or LIFO) come with a series of negative consequences.

- **Districts that move away from seniority-based layoffs see improvements in student outcomes.**
  - LIFO leads to losing many effective teachers while many ineffective teachers remain because experience only explains a little difference in effectiveness.
  - A recent study looking at the effect of state legislation limiting the use of seniority in layoff decisions found that such legislation raised district graduation rates by about 0.3 percentage points per year.
- **Layoffs based on effectiveness – if feasible given data and contracts – can result in fewer layoffs, reducing uncertainty and churn across the district.**
  - Using value-added testing data in New York City in 2010, researchers ran simulations to determine the differential effects of layoffs based on seniority or what they noted was highly limited data on teacher effectiveness. They found that the district could lay off fewer teachers based on effectiveness to achieve an equivalent cost savings. They also find that seniority-based layoff disproportionately affects schools serving low-achieving students.

- A study from the Charlotte Mecklenburg Schools shows that a discretionary layoff policy where administrators considered multiple factors in layoff decisions led to districts keeping higher performing teachers and fewer job losses.

- **While LIFO is sometimes built into state and district law and policy, many districts have considerable flexibility.**
  - States vary on the extent to which state law requires LIFO.
  - State laws and collective bargaining agreements can change, particularly given the unusual context created by the COVID-19 pandemic.

## Although shifts in retirement benefits could have long-term benefits, these shifts are unlikely to solve current problems.

- **Several studies of pension reform have found evidence that teachers might be satisfied with trading off higher salaries for lower retirement benefits in ways that could create long-term district savings. However, such shifts would be exceedingly difficult without state policy overhaul and not particularly useful for immediate-term shortfalls.**

- **Evidence on the effects of early retirement incentives are mixed, with some research suggesting both savings and benefits to students, but more recent data showing less evidence of meaningful savings for districts that offer such incentives.**

## FOR MORE INFORMATION

More evidence briefs can be found at the EdResearch for Recovery website. To receive updates and the latest briefs, sign up here.

Briefs in this series will address a broad range of COVID-19 challenges across five categories:

- Student Learning
- School Climate
- Supporting All Students
- Teachers
- Finances and Operations

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