NYSSBA
RESEARCH

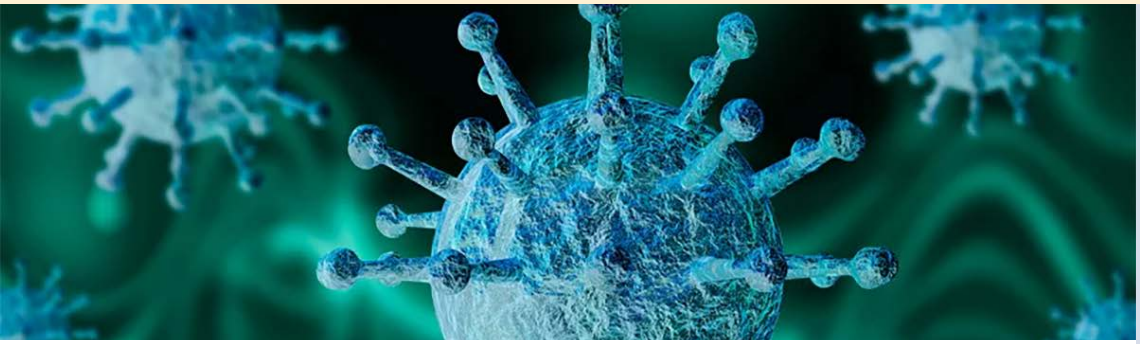
New York State School Boards Association

April 2020

Coping with the Economic Fallout from Coronavirus: Lessons from the Great Recession

The coronavirus pandemic promises to have a profound impact on school budgets in both the near- and long-term. The state's budget director recently estimated that New York's tax revenues for the 2020-21 state fiscal year could fall as much as $15 billion short of what was expected in January when Gov. Andrew Cuomo released his executive budget proposal.

As a result, state lawmakers enacted a budget for 2020-21 that holds Foundation Aid amounts flat at 2019-20 levels for every district. Total Foundation Aid – the largest unrestricted aid category supporting public school district expenditures in New York State – remains at $18.4 billion. By contrast, NYSSBA had estimated that schools would need a Foundation Aid increase of $1.6 billion in 2020-21 to help meet growing costs. Schools would have seen a $1.1 billion state aid cut if not for federal stimulus dollars authorized by Congress in March.



I. Financial alarms

Despite the federal stimulus, a provision in the enacted state budget that could lower state aid to schools on a rolling basis during 2020-21 if projected revenues don't materialize is worrisome. The state will assess revenues for three periods: April 1-30, May 1- June 30, and July 1- December 31. If actual state operating revenue is less than 99% of projected revenue for the measurement period or actual operating fund expenditures are more than 101% of projected operating fund spending, or both, the state Division of the Budget may reduce state aid for school districts and other localities.

This is an alarming prospect for school districts, not just for the potential loss of state aid but for the unpredictability associated with not knowing for sure whether districts will actually receive the amount of state aid allocated in the 2020-21 state budget.

The state's precarious fiscal situation is reminiscent of the Great Recession that followed the 2008 stock market crash. New York saw a decline in income tax revenues as a result of increased unemployment and lowered sales tax revenues from diminished consumption. New York's unemployment rate increased from 4.6% in 2006 to a peak of 8.5% in 2010, while state tax revenues fell 8% from 2007 to 2009.[1]

The recession, in turn, had an enormous impact on schools. For three straight fiscal years, schools saw significant state aid cuts. In 2009-10 the state budget included a $1.1 billion "Deficit Reduction Assessment (DRA)," a school aid cut meant to help the state fill its own budget gap. A supplemental DRA was enacted in December 2009 that cut another $391 million in state funding from schools.

In 2010-11, the state initiated the "Gap Elimination Adjustment (GEA)," the successor to the DRA. Under the GEA, a portion of the state's funding shortfall

[1] Chakrabarti, R. and Livingston, M. 2013. The Long Road to Recovery: New York Schools in the Aftermath of the Great Recession. Federal Reserve Bank of New York Staff Reports.

KEY TAKEAWAYS

- The state's precarious fiscal situation is reminiscent of the Great Recession that followed the 2008 stock market crash.
- Federal stimulus money helped school districts maintain instructional expenditures in the short-term, but this funding ran out before state and local economies had fully recovered.
- School districts responded to the financial crunch brought on by the Great Recession by making program cuts and staff layoffs, negotiating contractual concessions and tapping into fund balances.
- The 2020-21 State Budget holds Foundation Aid amounts flat at 2019-20 levels for every district but the state could lower school aid if projected revenues don't materialize.
- There is a precedent for mid-year school aid cuts. In 1990-91, state lawmakers cut state school aid payments mid-year and forced school districts to develop immediate strategies for making up for lost state funding.

was divided among all school districts in the state based on a formula and each district's state aid was reduced accordingly. The GEA was used to cut $2.1 billion from school districts in 2010-11 and $2.6 billion in 2011-12.

Congress helped relieve the impact of those state aid cuts with federal stimulus dollars under the American Recovery and Reinvestment Act (ARRA) and the Education Jobs Fund (EduJobs). ARRA supported education by helping to stabilize the budgets of school districts and EduJobs provided funding to hire and retain teachers. New York received approximately $1.4 billion in 2009-10 and $1.3 billion in 2010-11.

The state aid cuts triggered by the Great Recession had a lingering effect on school funding. The state's four-year phase-in of Foundation Aid, initiated in 2007-08 in part to address a court ruling that New York's schools were underfunded, was fully funded for two years but was largely abandoned after the onset of the recession. As a result, the state owes more than $3.8 billion in funding to make up the gap between what the state has allocated for 2020-21 and what the formula would dictate.

The purpose of this report is to describe how schools in New York coped with the challenges of reduced state aid brought on by the Great Recession, with the hope that this information will prove valuable to school board members as they face similar financial challenges due to the coronavirus pandemic. It also explores other strategies for how schools might address the same types of challenges in 2020 and beyond.

II. How did schools respond in the aftermath of the Great Recession?

School districts responded to the financial crunch brought on by the Great Recession in three main ways: (i) making program cuts and staff layoffs, (ii) negotiating contractual concessions and (iii) tapping into fund balances.

Layoffs and cuts

In 2010, in response to the 2010-11 budget proposal in which school aid cuts averaged 6.7% statewide, NYSSBA teamed with the New York State Council of School Superintendents on a survey of superintendents to gauge the impact of the 2010-11 proposed state budget on schools. Here are key findings from the survey.

School districts are entering a period of fiscal uncertainty, with the threat of state aid cuts looming. Making the situation worse is the threat of those cuts taking place after the school year has started.

- 77% of school districts indicated they would have to lay off teachers. Total teacher layoffs numbered 2,609 for the 323 districts that responded to the survey. On average, these districts anticipated having to lay off 4.1% of their teachers. It was estimated that if all districts were forced to make teacher layoffs at the 4.1% rate found in the survey, a total of nearly 6,300 teachers outside New York City would lose their jobs.
  [New York City was not part of the survey results. However, then-Mayor Michael Bloomberg warned that the Education Department would need to lay off 8,500 teachers under the governor's proposal, bringing the total projected statewide count to 14,800 teacher layoffs.]
- Districts responding to the survey indicated that they would pare another 857 teaching positions through retirements and attrition, comprising 1.4% of the teacher workforce. At that rate, another 2,113 teaching positions would be eliminated through retirement or attrition.
- Responding districts also said they would need to lay off 2,594 non-teaching staff (e.g., teacher aides, administrators, custodians, cafeteria workers, bus drivers, etc.). They identified another 489 job reductions among non-teaching staff through attrition and retirement, putting the total number of non-teaching positions lost at 3,083. That represented a 6.1% reduction in the total school workforce.
- With staffing reductions of the magnitude being considered, schools would not be able to avoid affecting the services students receive. According to the survey:
  - 79% of districts anticipated increasing class sizes;
  - 70% expected to reduce electives;
  - 67% may cut back extracurricular activities, including athletics;
  - 65% expected to trim or eliminate field trips;
  - 54% may defer equipment, new textbook, and library purchases;
  - 50% may need to eliminate or reduce summer school;
  - 39 to 43% anticipated scaling back other forms of extra help provided to students;
  - 39% would reduce transportation offered to students.

In 2012, schools were dealing not only with state aid shortfalls from the three previous years, but also a new reality: the property tax cap. To find out how school districts would cope, NYSSBA and the New York State Association of School Business Officials surveyed school business officials across the state.

The following were the percentages of districts taking the following actions in their 2012-13 school budgets:

Cut non-teaching positions	65.8%
Cut teaching positions	63.8%
Increase class sizes	53.2%
Reduce electives	43.5%
Reduce or eliminate extracurricular activities/athletics	35.9%
Reduce transportation	30.9%
Defer maintenance	29.9%
Reduce extra help for students	22.6%
Eliminate or reduce summer school	16.9%
Close one or more school buildings	5.6%
Reduce/eliminate pre-K	2.3%
Reduce/eliminate kindergarten	0.7%
Other cuts	28.9%

Contractual concessions

In 2010 and 2011, union locals in at least 200 districts agreed to some form of concession ranging from giving up professional days to salary freezes and higher health insurance contributions.[2] Some changes came through settlement of new contracts while others involved opening and renegotiating provisions of existing contracts.

For example, teachers in LaFargeville declined their 4.5% contractual raises, saving the district some $107,000. Administrators and all contract employees (clerk, business official, cafeteria manager, transportation supervisor, head custodian, deputy treasurer, technology coordinator and the superintendent) all took freezes as well, saving the district another $26,000. The year before, employees unanimously agreed to take smaller, 2% pay raises (rather than the scheduled 4.5%) to prevent further cuts and keep the tax levy down.[3]

In North Merrick, teachers and administrators agreed to give up pay raises contingent on passage of the district's proposed budget, saving the district about $350,000. In return, the district agreed not to lay off teachers, or eliminate school orchestras, theater programs and other services that earlier were at risk. Under the agreement, local teachers gave up contractual raises of 2.75%, but retained annual step increases averaging about 2.5%. In exchange, teachers obtained a two-year contract extension with raises of 1.25% in 2012-13 and 1.5% in 2013-14, plus steps.[4]

The Ticonderoga Central School District in Essex County came to an agreement with its teachers union on salary concessions, saving $320,000. Teachers there were due to receive a 5.73% wage increase but agreed to waive 85% of their raises by skipping their annual step increases. The deal also included freezing coaching and extra-curricular stipends at the 2010-11 level, as well as a two-year contract extension with a 0% increase in those years. All administrators in Ticonderoga took salary freezes, too.[5]

Use of fund balance

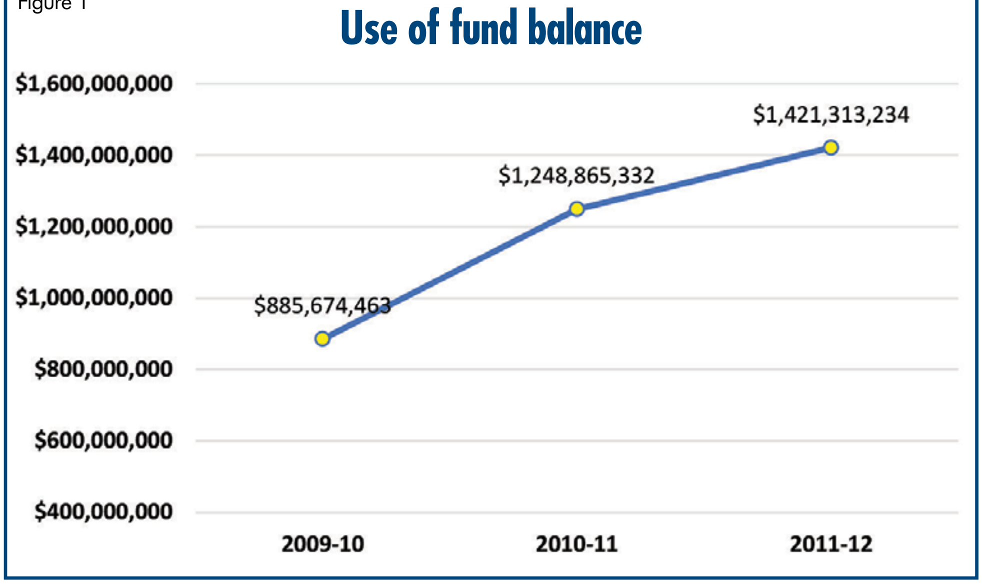
In the three fiscal years immediately following the onset of the recession, school districts used more than $3.5 billion in fund balance to help plug budget holes. Fund balance usage climbed from nearly $886 million in 2009-10 to more than $1.4 billion in 2011-12 – an increase of 58% (see Figure 1).

III. Lessons learned

There are a number of parallels between the Great Recession of 2008 and the coronavirus pandemic of 2020 in New York with regard to their impact on schools. In both instances, economic hardships caused state revenues to decline dramatically and resulted in significant cuts to state funding for schools. In both instances, the state's finances were helped by an infusion of funding from the federal government.

The economic impact of the Great

Figure 1



School districts used more than $3.5 billion in fund balance during the Great Recession

[2-5] Heiser, P. April 25, 2011. Unions sharing burden through concessions. *On Board.* New York State School Boards Association.

Recession of 2008 lasted well beyond the immediate post-recession period. Federal stimulus money helped school districts maintain instructional expenditures in the short-term, but this funding ran out before the state and local economies had fully recovered. As a result, districts had to make widespread cuts in all expenditure categories in 2011 and 2012, including instructional expenditures, the category most relevant for student learning. School districts tempered these cuts by securing hard-fought concessions and draining fund balances.

The coronavirus pandemic promises to have a profound impact on school budgets in both the near- and long-term.

The threat of school funding cuts in 2020 and beyond in response to the coronavirus would likely mean that schools would have to make similar cuts in programs and staff. It also raises the specter of "educational insolvency," in which districts lose the ability to provide a quality education because of the austere budgets they have to craft.

Mid-year cuts

Another threat lies on the horizon: the possibility the state will have to make cuts to public education throughout the fiscal year – after school districts have adopted their local spending plans. There is a precedent for such a scenario. In December 1990, state lawmakers approved a mid-year deficit reduction plan to cut 1990-91 state school aid payments by $190 million.[6] The mid-year cut forced school districts to develop immediate strategies for making up for lost state funding, including reducing expenditures, taking money out of fund balances and increasing revenues.

In Glen Cove, the school board responded by cutting 12 teaching, nursing and secretarial positions to make up for a cut of $415,000. But negative community reaction to the cuts led the board to add one registered nurse and reinstate two teachers who would have been let go.[7]

"These put-backs will come to about $52,000," said then-Superintendent of Schools Florence Andresen. "The difference will have to be found in other places, probably with excesses in non-teaching positions."[8]

The Glen Cove school board approved a host of other money-saving measures, including freezing all purchase orders, rationing photocopy and other paper supplies, monitoring intra-district telephone calls, lowering thermostats to 55 degrees at 3:30 P.M., closing all schools for public use on weekends and after school hours, eliminating the continuing-education night program, curbing conferences for administrators and teachers and dissolving certain clubs not directly related to the curriculum.[9]

The Bellmore-Merrick Central High School District lost about 4% of its state aid, amounting to about $600,000. The board there eliminated three sections of one-semester electives, placed a hiring freeze on nonteachers, eliminated secretarial overtime, reduced custodial overtime, halved conference spending and reduced after-school supervision. The cuts amounted to savings of $125,000, while the remaining $475,000 came from cooperative ventures with other districts and reduced premiums for the teachers' retirement system.[10]

Superintendents and board members of 12 Nassau districts took their concerns to state lawmakers. They organized a conference to discuss strategies for aid cuts, including reducing mandated funds first and giving districts more options to use their money.

Delayed payments

In December 2009, Gov. David Paterson unilaterally withheld $146 million in scheduled payments to schools, citing a cash flow problem. The funding was ultimately restored the following month. Paterson's action came after the Legislature had rejected the governor's proposal for a $686 million, mid-year school aid cut as part of his plan to close what he said was a $3.2 billion deficit in the 2009-10 budget.[11]

Due to the coronavirus pandemic, there is fear that state aid payments due to school districts in April, May and June of this year could be delayed depending on the state's financial situation. Delayed payments could cause school districts to consider short term borrowing. Traditionally, the purpose of such borrowing is to finance temporary cash shortfalls that occurred before property taxes were received. But, school districts might consider such a method as a way to manage shortfalls created by potential delays in state funding.[12]

Many school districts across New York face serious economic challenges, including lack of economies of scale due to declining enrollments; limited ability to raise revenues locally; and escalating costs, particularly health care and meeting the educational needs of immigrants and students whose primary language is not English. Diminished state aid would exacerbate an already dire situation.

Congress is considering an additional COVID-19 related stimulus package. If such a package were to include additional funding for K-12 schools, it could mitigate some of the damage caused by state aid cuts. In the meantime, school districts need to brace for possible hard times ahead.

[6] Fiscal Analysis and Research Unit. August 2019. State Aid to Schools: A Primer. New York State Education Department.

[7-10] Saslow, L. Jan. 27, 1991. School boards scrambling to make up for aid cuts. *New York Times.*

[11] Humbert, M. Jan. 11, 2010. NYSSBA, others sue governor over withheld school aid. On Board. New York State School Boards Association.

[12] California Debt and Investment Advisory Commission. 2019. California School Finance: The Practice of Borrowing from Bond Proceeds. Office of the California State Treasurer.