

Schools Are Heading Into a Perfect Financial Storm



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Daryl McLaughlin, superintendent of the 785-student Perry school district in rural New York, was bewildered when he found out how much money the state plans to provide next school year.

Even though Gov. Kathy Hochul has promised a massive increase in state aid for schools, the Perry district's two schools will barely see a bump over the current year. The state's funding formula, last updated in 2007, takes the district's collective household income into account, and according to the state's tax office, residents in the Perry district earned \$15 million more in 2020 than in 2019, translating into less state aid than the district might otherwise receive.

McLaughlin suspects that figure may be an error. But he has no way of proving it. And he has a lot of other things on his mind.

Teachers and other workers are expecting substantial wage increases to keep up with inflation. The district is on the hook when students can't afford the costs of meals, now that the federal government no longer funds universal free meals nationwide. And expanded summer programming and mental health counseling may be on the chopping block as federal COVID relief funds expire within the next year and a half.

"Our schools have become the largest social services organizations in our state," said McLaughlin, who also leads the Genesee Valley Chief School Officers Association, which covers 22 neighboring districts. "There needs to be funding to support those moving into the future."

The Perry schools are hardly an outlier. Across the nation, school district finances are set to crash into a perfect storm of fiscal complications in the coming years.

Federal COVID relief funds will start to expire this fall, and the deadline for spending all those funds will arrive a year later. Inflation is driving up the costs of compensating employees, keeping buildings running, and renovating facilities. Meanwhile, the specter of an economic downturn looms large, particularly for low-wealth districts on shaky financial ground.

The result: Many teachers and other school workers could lose their jobs, academic supplements like tutoring and summer programs could be pared back, and funding for mental health services and other social-emotional supports will be harder to come by. This all comes at a time when student needs aren't waning: They're still struggling from learning loss that has been particularly pronounced among low-income students and lingering trauma from the pandemic.

“To assume that after two years of an atypical school year, that one typical school year would mitigate that, would be a false premise,” said Embekka Roberson, superintendent of the Birmingham schools in Michigan.

With federal dollars on their way out, districts must fill gaps

Three rounds of federal COVID relief aid during the pandemic fueled massive investments in HVAC system improvements, expanded tutoring, extended school days and academic years, and digital

device purchases to help students learn and do schoolwork from home.

The funding also helped some districts stay afloat. Michigan, for instance, removed dozens of school districts from its list of financially struggling school systems after many plugged budget holes with federal COVID money.

Many districts prioritized spending temporary federal funds on one-time expenses. But some took a gamble on using the money for recurring expenses, hoping they'd eventually find an alternative source.

The Cecil County district in Maryland, for instance, invested most of its \$40 million allocation on more than 100 new full-time employees.

District leaders did their best to deepen the district's funding reserves so that some of those employees can stay on even when federal dollars fall off. But some will likely be let go, said Jeffrey Lawson, the district's superintendent.

"What we decided was, maybe we won't be able to do this four or five years out, but we know we can do it now," Lawson said. "If I looked back and I had to do it all over again, I would have done the same thing."

Still, losing people stings, Lawson said, especially when students have unmet needs. He continues to worry about students' reading and math fundamentals and about the widening achievement gap

between students from low-income families and their wealthier peers.

“It starts to look at the local level like we don’t have to do it because we’re getting it from the federal government,” Lawson said of the federal funds infusion. “That’s going to come to a screeching halt.”

Some districts are already beginning to let go of employees they hired temporarily when the relief money arrived. Others are reshuffling budgets to fund those workers’ salaries with different pots of money.

The Alachua County schools in Florida hired instructional aides and health care workers with COVID relief funds. Some have left, and their positions won’t be filled. But others may have to be let go, unless the district can come up with alternative funding.

Tina Certain, an Alachua school board member, fears that districts like hers will be punished for failing to implement transformative change during the window to use relief funds, even though they were working within time and logistical constraints beyond their control.

Some proposals, like extending the school year, fell through during collective bargaining negotiations. The district had to compete with the 66 others in Florida for the same contractors to repair HVAC systems. And three years is a short time to reinvent decades-old instructional approaches.

“Those that are attacking public education will say, ‘We gave them a boatload of money and the results still haven’t improved any, so they can’t say it’s the money,’” Certain said. “But in order to get outcomes, you have to change systems, the way we do things.”

Fixed costs strain districts’ capacity to innovate

There’s only so much districts can do to change systems when fixed costs are rising so quickly.

Districts’ pension liabilities have grown more quickly than the revenue to cover the increases. And multiple district leaders told Education Week the cost of providing health insurance to employees has never risen more quickly than in the last couple of years.

The Sag Harbor district on Long Island in New York saw double-digit percentage increases in health insurance premiums last year and this year, said Jennifer Buscemi, the district’s business administrator. It’s the first time she can remember such steep increases in two consecutive years.



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Benefits aren't the only cost that schools have little room to finagle. Prices for construction materials and labor have skyrocketed, forcing some districts to put construction plans on hold.

The Kearney school district in Missouri has long planned to add a fifth elementary school to ease overcrowding. Initial estimates this year for the project came in \$8 million over budget. Even with trimming and tightening, the district only managed to reduce the cost to \$2 million over budget.

Opening a new building also brings new costs: adding staff, keeping the lights on and the water running. Forging ahead with an ambitious project at a time of uncertainty felt risky to district leaders, so they paused the project for now, said Emily Miller, superintendent of the Kearney district.

Instead, two of the four elementary schools that are currently over capacity may get renovations and additions. The district is also working with demographers to refine enrollment projections for the next decade, so administrators can know with more certainty whether they can get by without a new school.

“People have been appreciative of our fiscal responsibility to slow down and make sure that we’re measuring twice and cutting once,” Miller said. “We want to make sure that this is the right fit for Kearney.”

High-poverty districts fight unpredictable funding

In some districts, the headaches that come with a volatile economy are a reminder of a more existential frustration: legacy funding systems that put them at a disadvantage.

Advocates in Indiana are pushing to reverse a recent trend of declining aid for high-poverty districts. Lawsuits are underway in states like Pennsylvania and Wyoming to challenge state funding systems that districts and advocates say are inadequate. States like Georgia haven't updated their funding formulas in decades.

Every two years in Alaska, districts beg lawmakers to increase funding. Those calls have largely gone unanswered, with only a \$250 per-student increase in base aid in the last decade, said Lon Garrison, executive director of Association of Alaska School Boards.

He believes the state should create an education-centric version of its permanent fund, which provides Alaska residents with an annual share of investment earnings from mineral royalties. That way, districts could rely on a predictable revenue stream and focus on supplementing it at the local level.

“Even before the pandemic, we were having problems with the social-emotional needs of students, student mental health, trying to make sure parents are connected with their schools,” Garrison said. “Now we’re trying to play catch-up.”

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