Bad economic news is coming in waves these days — falling home prices, increasing loan defaults, sinking consumer confidence and rising unemployment rates have all made headlines. While news about the state of our nation’s economy can be disheartening, it is important to remember that a national economic slowdown does not usually translate into immediate budget cuts for school districts. There is a progression from a national economic slowdown to reductions in school budgets, the stages of which can be identified as follows (Click on the titles for information about each topic):

- National Economy
- State Economies
- State Tax Revenue
- State Budgets
- State Education Funding
- School District Budgets

Between each of these stages exists a lag time — this lag time varies depending on a number of factors. After the events of 9/11, it was only a matter of weeks before the national economy was impacted and school district budgets were cut. However, in some cases, it has taken months or even years for a national economic slowdown to impact school budgets.

States Are Not Impacted in the Same Way

Each economic slowdown impacts different states in different ways. The current slowdown in the economy is less severe on those states that rely on mineral extraction taxes (i.e. taxes on oil, natural gas and coal) or those states with a large agricultural base. In addition, those states that did not receive a “boom” in the housing market of the late 1990s and in the early part of this decade are not being impacted as greatly by the current “bust” in the market. However, those states that rely on businesses outside of mineral extraction or agriculture — especially those who rely on manufacturing — are already experiencing the pinch of the economic downturn.
What Options Exist For Policymakers

There are steps that policymakers can take to help diminish the impact of economic downturns on school budgets — these include proactive policies that can be implemented prior to bad economic times and reactive policies that can be used after a downturn.

Funding Changes that May Help Stave-off School Funding Cuts:

- **Conduct a review of state and district education budgets looking for efficiencies.**
  The state of New Jersey just completed a review of education spending which they hope to use to increase the efficiency of education spending in their state.

- **Create or expand a “Rainy Day” fund for education.**
  By placing additional revenue in Rainy Day funds in good years, states can create a financial cushion for bad years. A recent report from the Governor's “Committee on Education Excellence” in California recommended this change in their state.

- **Diversify the taxes that are used to pay for the state’s share of education.**
  This option may not always be possible for fiscal, political or legal reasons, but if a state is able to move away from relying on a single funding source for education, (i.e. sales, income or “sin” taxes) it could create a hedge against bad economic times.

School Funding Changes that Can Improve Quality and Reduce Costs

- **Promote the idea of school district purchasing cooperatives.**
  A study conducted on behalf of the Leadership for Education Achievement in Delaware Committee found that if school districts pooled their purchasing power, they could reduce their costs by between 8% and 14%.

- **Encourage districts to work together to educate high-need special education students.**
  Studies have found that if districts work together to educate certain high-need special education students, they can both improve the quality of education and reduce costs.

- **Streamline the state’s funding system with an eye toward efficiency.**
  Starting in the 2007-08 school year, the state of New York consolidated approximately 30 smaller funding programs into a new foundation aid formula. This change was made with the hope that the new streamlined funding system would help reduce administrative costs while making the system easier for districts to comprehend.

You can find additional information about state school funding policies on the ECS School Finance web page or by contacting Michael Griffith, ECS school finance analyst, at mgriffith@ecs.org

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