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Newsletter

Austerity or Accountability? State Financial Interventions During Economic Downturns

Recessions are a fact of life in the United States. When they occur, school districts may find themselves short of funding as tax revenue declines. State interventions often follow.

In a recent article published in the peer-reviewed journal *Educational Evaluation and Policy Analysis*, NEPC Fellow Christopher Saldaña of the University of Wisconsin Madison takes a look at what happened to districts that experienced early state fiscal intervention in California, the nation's most populous state, during the last major recession in 2008. In doing so, Saldana distinguishes between state interventions that emphasize financial austerity versus those that emphasize accountability.

A California statute creates a fiscal accountability policy whereby county officials label school districts to signal fiscal health. A "negative" label means that the district is unable to meet its financial obligations and allows policymakers to intervene, under the presumption that the district's leaders have made poor resourcing decisions that resulted in the identified problems.

"In theory," he writes,

> fiscal accountability implies improving the short and long-term fiscal health of school districts without harming or even improving the educational outcomes of students. Alternatively, fiscal austerity is concerned with reducing spending

> on public goods in a way that neglects both the quality of organizational and institutions' quality, and/or the well-being of the individuals who benefit from public goods.

He found that California took an austerity-based approach that cut budgets with little regard for the impact. On average, per-pupil expenditures in the financially distressed districts declined by 3.3 percent, or $241, in the year after the state interventions started. Facilities, instruction, and pupil support faced the lion's share of the reductions. The districts also drew down their reserves.

Although district leaders did try to raise additional local funds during the financial crisis, those efforts were generally unsuccessful due to the shortage of resources in the higher-poverty communities they served and to Proposition 13, a state law that limits the amount of property tax revenue that can be raised.

The reduced spending was associated with declines in student outcomes in both math and reading/language arts. Hispanic students and children from low-income families experienced concentrated declines.

Districts did not receive what they needed most during the downturn: additional state or federal funding to replace the revenue they had lost as a result of the recession.

"In California, state and county officials pressured districts to pursue fiscal health over students' opportunities to learn without considering if school district distress was the result of inadequate funding," Saldaña writes.

> In doing so, my results imply the practice of early fiscal intervention was leveraged to meet the goal of austerity. In other words, the findings of this study debunk the myth that early fiscal intervention in district finances during and after the Great Recession was necessary due to district leaders' inability to allocate resources efficiently or to put a district's financial house in order. Instead, the results show that state pressure and intervention resulted in budget cuts to necessary educational expenditures.

Although Saldaña's study focused on California, he notes that all 50 states have implemented so-called fiscal accountability measures for K-12 districts.

He suggests that states revisit these measures, considering ways they might promote fiscal accountability without harming students. He also offers recommendations for the federal government: Although states did receive additional federal funding for schools during the period of the 2008 Recession, that revenue was distributed by states, which were not required to take into account the fact that the districts most likely to face financial crises during financial downturns are those that disproportionately serve minoritized students and those from low-income families. In addition, that funding expired abruptly after two years, creating a fiscal cliff as state legislatures failed to make up for it and return funding to pre-Recession levels.

NEPC Resources on School Finance and Funding

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