K-12 Partnership *Report*

The Case for Community-School Partnerships

Why partnership efforts should be at the top of the funding list

Whether you work for the schools or for a partnering organization, chances are that you've started seeing reductions in funding for partnership work due to the current economic decline. Is this the right time for cutting back on investments in community/school partnerships? Or is it exactly the wrong move?

Districts and community groups alike are responding to current circumstances as if they're facing a typical boom/bust economic cycle: batten down the hatches now, and reinvest after the storm blows over. But there is strong evidence that we're facing a different situation entirely: a fundamental change that will force us to work with significantly lower levels of funding for the foreseeable future. Quite possibly, we'll need to rethink the purpose and scope of public education. If this is the case, then public/private partnerships will become a critically important vehicle for providing student services and producing desired outcomes in the absence of traditional levels of government support.

This article will help partnership leaders in both the public and private sectors understand the key forces that will affect K-12 funding in the future and give them the information they need to make a strong argument for investing in partnerships despite current spending restrictions.

Revenues

According to the National Center for Education Statistics, funding for public education has risen dramatically in the past few decades: in just the last 20 years, total expenditures per student have risen 51%, from $6,062 in 1985 to $9,154 in 2006 (numbers adjusted for inflation, presented in 2006 dollars). Businesses, foundations, and other sources make up just one percent of K-12 revenues: virtually all (approximately 99%) of this revenue comes from government sources, with local governments contributing 44.4%, states 46.5%, and the federal government just 9.1% of this amount.

Can this growth in government funding continue, or even be maintained at current levels? The answer seems to be no. In fact, various factors make it more likely that the funding declines we're seeing now are not temporary, but rather the start of a significant downward trend.

The housing crisis is certainly at the forefront of the current economic situation. The S&P/Case-Schiller Index of 20 cities shows that home prices have declined an average of 27% from their peak in 2006. While that number is alarming, what's more alarming is the fact that home prices may have farther to fall: to get back to the historically steady ratio of incomes to home values, prices would need to fall another 9%, and that appears to be the direction we're heading.

This impacts government revenues in several ways:

- Reduced home values mean reduced property taxes. When a $300,000 home drops 27% in value to $219,000, property taxes will eventually fall as well.
- The rise in foreclosures as people default on variable rate loans turns a revenue source (property taxes) into an expense (foreclosure proceedings, decreased property values on nearby homes, crime, etc.).
- Foreclosures will continue to climb as additional waves of subprime mortgages reset through 2009 and 2010.

This is a critical issue because local governments rely heavily on property taxes, with much of that revenue flowing through to schools: in fact such taxes make up approximately 30% of all school funding. And, while property taxes are generally not a source of state revenue, a slowdown in the housing market means that states are seeing significant reductions in sales taxes (for goods purchased for new homes), income taxes (from those in the construction and related trades) and other sources.

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In fact, the Center on Budget and Policy Priorities predicts a $350 billion shortfall in state budgets over the next three years, with a shortfall of $99 billion in the current fiscal year, $145 billion in FY 2010 and $180 billion in FY 2011. And with local and state governments facing these large reductions in revenue, it's important to note that unlike the federal government, almost all state and local governments are required to balance their budgets. This means that reduced revenues cannot be offset by borrowing and deficit spending; they have to be offset by reductions in current spending.

Expenses

If the current recession was our only challenge, those who see us as being in the down phase of a regular economic cycle would likely be correct. However, there are other issues at hand–namely, obligatory government spending that will increasingly crowd out spending in other areas like K-12 education even if or when revenues do recover.

Much of this obligatory spending stems from the aging of the Baby Boomer population. Over the past few decades, the number of people age 65 or older has increased slowly, growing from 25.7 million in 1980 (representing 11.3% of the population) to 40.2 million in 2010 (13% of the population). The first Baby Boomers turn 65 in 2011, and by 2030 the number of people of retirement age swells to 72.1 million, or 19.3% of the population.

There are revenue implications, of course: these are people who have been paying income and employment taxes into the system and, by and large, will not be in the future. But the larger story lies in the increased costs to society this shift represents.

Social Security is one such cost. Historically this federal program has run a surplus, with more revenues coming in than going out. In 2017, that changes, and other funds will increasingly have to be put in to the system to cover the program's deficit. After adjusting for inflation, annual deficits will reach $76.9 billion in 2020, $257.5 billion in 2030, and $312.3 billion in 2035.

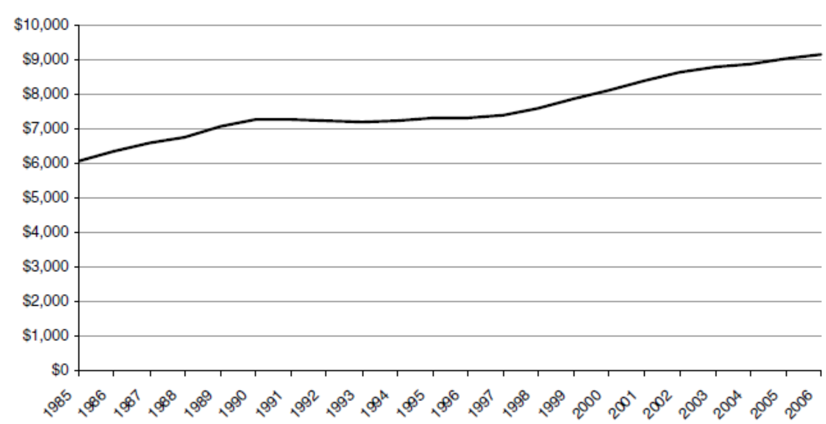
Medicare, a federal program that provides health insurance for older Americans and those who are disabled, is expected to grow rapidly as more and more Baby Boomers move into retirement. The program went from surplus into deficit in 2008. In the short term, Medicare is expected to see a deficit of $67 billion by 2017; in the long term, it represents literally trillions of dollars in unfunded obligations.

While not specifically focused on older Americans, Medicaid, a health insurance program for low-income people of all ages, is also having an increasing impact on government funds. The program is funded by the federal government and state governments jointly, with states picking up 43% of the cost. It is a large and growing program: the total cost in 2006 was $320 billion, and the program has been growing at 6% annually – twice the rate of inflation. The size and growth of this program are having a particularly strong impact on state budgets; it accounted for 22% of state spending in 2006 (up from 8% in 1985).

The pensions and other retirement benefits of state

Expenditures per student, 1985-2006, adjusted for inflation in 2006 dollars

Source: *Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2005–06 (Fiscal Year 2006)*, National Center for Education Statistics, U.S. Department of Education



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employees (including teachers and others) are another significant expense. According to the Pew Center, most state pension plans have set aside money for pension benefits, yet there is still a shortfall of 15%, or $360 billion. States have not been preparing to cover the costs of non-pension benefits, such as retiree health care, resulting in an unfunded obligation of $370 billion.

The Student Population

Reduced revenues and increasing costs are a challenging mix: combined with a larger student population, they become even more daunting. And according to the National Center for Education Statistics (NCES), school enrollment is projected to set new records every year from 2008 through 2016, the last year for which NCES has projected enrollment numbers. Eighty-nine percent of all eligible school-age children attend public schools, and their numbers are expected to grow from 49.8 million in 2008 to 53.3 million in 2016. These numbers assume that the same percentages of children continue to attend private schools, which may not be likely in an economic downturn.

The makeup of the student body is also worth considering in light of recent accountability efforts: we have not only affirmed our commitment to educating every child, but we have put the tools into place–namely, the reporting of performance by subgroup–so that we can clearly see whether we're fulfilling that commitment.. There have been disparities in outcomes for decades, including a prominent academic achievement gap between some demographic groups, and large differences in dropout rates by race, with 75% of white students graduating high school, but only 50% of African-American and 53% of Hispanic students doing so. All of this is brought to the forefront by current accountability programs and will take work to address.

The U.S. Census projects that we are becoming more diverse as a nation, with the percentage of whites shrinking from 69.9% of the population in 2000 to 50.1% in 2050. According to the Pew Hispanic Center, we have already seen this dramatic population shift begin within the public schools. Richard Fry, senior research associate, notes that "Latinos in 2005-06 accounted for 19.8% of all public school students, up from 12.7% in 1993-94. During this same period, the black share of public school enrollment rose slightly–to 17.2%, from 16.5%–while the white share fell sharply, to 57.1% from 66.1%."

Based on fertility rates, demographic changes among school-aged children will continue at a quicker pace than the general population. According to work cited by the American Academy of Pediatrics, by 2020 approximately 40% of school-aged children will be from minority groups, and by 2025 we can expect to see that the child population will comprise 15.8% blacks, 23.6% Hispanics, 1.1% American Indian/Native Alaskans, 6.9% Asian/Pacific Islanders, and 52.6% whites.

The student population is also expected to include a growing number of children with physical or mental disabilities. From the 1976/77 school year to the 2003/04 school year, the percentage of students characterized as having some type of disability rose steadily from 8.3% of the population to 13.7%. There are no available projections related to the growth of this market; however, growth has been steady over the past 30 years, so one can expect this trend to continue.

What about ARRA—the American Recovery and Reinvestment Act?

On February 17, the President signed the American Recovery and Reinvestment Act of 2009 (ARRA) into law. This stimulus initiative provides billions of dollars for K-12 education over the next two years, including:

Direct Funding for Education — $77 Billion

- $40 billion in state stabilization funds to help avert education cuts. This will be given to states in exchange for a commitment to begin advancing education reforms. School systems have discretion to use some of this money for school modernization.
- $13 billion for Title I, including $3 billion for Title I school improvement programs.
- $12 billion for IDEA
- $5 billion in incentive grants to be distributed on a competitive basis to states that most aggressively pursue higher standards, quality assessments, robust data systems and teacher quality initiatives. This includes $650 million to fund school systems and non-profits with strong track records of improving student achievement.
- $5 billion for Early Childhood, including Head Start, early Head Start, child care block grants, and programs for infants with disabilities. (Includes HHS programs)
- $2 billion for other education investments, including pay for performance, data systems, teacher quality investments, technology grants, vocational rehab, work study, and Impact Aid.

Additional School Modernization — (up to) $33.6 Billion

- An additional $8.8 billion in state stabilization funds are available for other state services including education.
- The Act provides for states and school systems to issue $24.8 billion dollars in bonds for renovation, repairs and school construction that will be retired through a combination of local, state and federal dollars.

This money will certainly help school districts facing budget cuts, but it is a partial, and temporary, solution. As Jack O'Connell, state superintendent of public instruction in California, said to the *Wall Street Journal*:

> "It's going to mean a softer landing for us...instead of a superintendent having to decide between textbooks or a math teacher, we'll be able to do both. Or, it will mean a longer bus ride for kids, instead of eliminating transportation."

The Case for Community/School Partnerships

For a system that depends almost entirely on funding from government sources, the forecast is troubling. Far less revenue will be available for K-12 education at a time when the student population is growing and expectations for improved outcomes are increasing. And even if tax revenues do recover, the sheer number of Baby Boomers retiring and the government services they will require make it clear that the public schools will be facing a sustained, not temporary, reduction in funding.

Certainly there must be budget cuts, pursuit of efficiencies and the elimination of some services. But if we are to give every child an opportunity to receive a great education, and prepare the workforce of the future, we'll have to do more than cut costs. As the Association of School Business Officials International wrote in a report from their December 2008 Economic Crisis Summit: "The bottom line is that budget cuts will be long-term and that the most significant sources of revenue for school districts will be severely diminished. Therefore, it is imperative that we think about alternate sources of revenue, public/private partnerships, community involvement, and even the core mission of our schools."

For K-12 education to thrive in the future, schools will have to dramatically increase the amount of support they receive from their communities. Depending on their structure, community/school partnerships can result in direct financial support, identification of operational efficiencies, improvements in academic, social, and postsecondary (career and college) outcomes, reductions in costs through shared or donated goods and services, lobbying and communications support, and more. All of these benefits can add real value to the educational system while compensating for reduced government inflows.

Community support for K-12 education, including business, foundation, and other support has been estimated at $5 billion per year (1% of the system's $500 billion/year budget); it's time to look for ways to scale up in terms of the number and scope of community/school partnerships. It won't just happen on its own: it's going to take a strong and ongoing investment in community engagement at every level, led by those in the field who have already gained the knowledge and skills needed to build those relationships. This is an investment with a proven ROI – and it's one that every district and partnership group should make because of, not in spite of, the economic downturn.

Resource Links

For a complete list of the sources used in this article, contact Brett Pawlowski, publisher of the ***K-12 Partnership Report***, at brett@dehavillandassociates.com or 704-940-3201.