



ECONOMIC CRISIS SUMMIT

**A NEW FUTURE FOR EDUCATION FUNDING
DECEMBER 11 – 12, 2008**

underwritten by



**Association of School Business
Officials International**

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INTRODUCTION

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The following report, produced by the Association of School Business Officials International (ASBO), is intended to share the information presented at the two-day Economic Crisis Summit and to provide a point of reference for the difficult conversations now taking place in school districts throughout the country.

It is not meant to provide a comprehensive to-do list or a road map out of the current economic difficulties. That is not possible. For all that we know about the current situation, there remains much that is unknowable and the economic indicators are changing daily. And yet the task of realigning budgets in light of the new realities of revenue declines and anticipated changes in future sources of revenue cannot wait until the dust from the economic implosion settles.

There is much to consider. It will not be enough to settle for the “tried and true” approaches that have gotten us through tough economic periods in the past. We hope a careful review of the various options offered by the presenters and the list of actions and activities developed by the attendees during the breakout sessions will spur your thinking and motivate you to explore options that you may not otherwise have considered. Share this with your colleagues. Use it as a starting point for your own brainstorming and strategic planning sessions. Stretch yourselves. Put on your thinking caps. Design the way forward. School business officials are some of the most creative folks around. Unleash that internal creativity.

ASBO International provides many tools to help you meet this challenge, from the latest news and information to continuing education and networking opportunities. We will continue to work on your behalf with the new Obama administration to ensure they understand the particular challenges you face. We have shared the results of the summit with them to better inform them as they move forward to help our nation regain its footing.

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The present state of the economy signals a paradigm shift with unprecedented challenges, but also a rare opportunity for a vision of sustainable support for education.

EXECUTIVE SUMMARY

THE CURRENT SITUATION

The current economic environment is unlike any in recent memory. As school business officials, you have faced challenging budget situations in the past. Participating in budget reduction exercises, reallocating and maximizing resources, looking for new and creative ways to economize, and in some cases, postponing infrastructure maintenance have become routine for many. In the majority of cases, these have been short-term fixes to long-term problems. Even while funding for education increased, many times those increases did not keep up with inflation, making it more difficult to manage resources.

The present state of the economy signals a paradigm shift with unprecedented challenges, but also a rare opportunity for a vision of sustainable support for education. The challenges are clear. The foundation of the traditional sources of revenue for school budgets—local property taxes and state funds—are in jeopardy. They are not likely to return to their present level in the foreseeable future.

The downward spiraling nature of this recession—from the mortgage meltdown and home foreclosures to the credit crunch and subsequent rise in unemployment that will inevitably lead to more foreclosures—means that revenue from property taxes likely will continue to decline for the next 18–24 months before leveling off. In some cases, based on demographic and geographic locations, the decline could be even longer.

Forty-four states have already reported severe revenue deficits or budget shortfalls for 2009. It is not likely that they will be able to provide additional funding to make up for the loss of property tax revenue. On the federal level, the incoming administration is preparing an economic recovery/stimulus plan that probably will include an education component. It is not clear how large it will be or how long it will take to make a difference on the state or local level. There is no question, however, that we cannot rely on the federal government to balance our district budgets or provide all the resources that we need to educate our nation's young people.

WHAT DOES IT MEAN?

Any decisions we make now must be made with the future in mind. You've already cut the "low hanging fruit" and identified which reductions will have the least impact in the classroom. Relying on only short-term solutions will inevitably lead to long-term consequences. Instead of looking at ways to make it through the next budget cycle, school business officials need to look at ways to make these cuts sustainable and generate revenue from other sources.

This means engaging all stakeholders (school officials, board members, teachers, parents, students, the business sector, and members of the community) in a discussion about the future. That may include redefining the core curriculum, prioritizing extracurricular activities, and renegotiating contracts. Everyone will bring a different perspective to the table and argue that certain elements of both the academic and non-academic aspects of the school district are inviolate. It is possible that in order to effect long-term change you will have to engage lawmakers on both the state and local levels while ASBO actively works for you at the federal level. But even then, there may not be enough money to fund even the basic activities of a school district. Cost cutting, budget trimming, looking for cost efficiencies and



economies of scale, even eliminating some ancillary programs may not be enough to balance the budget.

The key to achieving a reliable new foundation of support will require well-designed strategies for revenue generation and cost shifting/sharing. Opportunities for increasing revenue and sharing costs abound, but may be less recognizable than those for cost cutting.

While there are many unknowns at this time, there are several things we do know that we must keep in mind as we move forward:

- There will be a continued shift in local, state, and federal financing.
- There is growing competition for all resources, especially in healthcare and other demands of an aging population.
- Foreign direct investment will be a driver in the economy.
- Any recovery will reinforce the role of small businesses
 - Increasing labor mobility
 - Looking for resources, not giving out funds.

REVENUE GENERATION/COST SHARING

The generation of revenue to offset long-term budgetary shortfalls and fund ongoing projects will have to be significant and sustainable. This presents opportunities on several fronts. Successes have included:

Public – Private Partnerships (PPP)

“A Public-Private Partnership is a contractual agreement between a public agency (federal, state or local) and a private sector entity. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public. In addition to the sharing of resources, each party shares in the risks and rewards potential in the delivery of the service and/or facility.”

- The National Council for Public-Private Partnerships

Public-Private Partnerships (PPPs) have been used successfully to leverage taxpayer funds with private sector investment to reduce the public sector’s costs and transfer some of the risk involved in infrastructure projects. They have been used in a variety of sectors, including transportation and water/wastewater projects. There are more than a dozen types of PPPs, ranging from Contract Services to Build-Own-Operate (BOO) to Lease-Develop-Operate (LDO).

The key to making a public-private partnership work is that it has to be viewed as a real partnership by both parties, with shared risks and shared rewards. In short, there must be a shared stake in the outcome.

President Obama has said he will support entrepreneurship and spur job growth by creating a national network of public-private business incubators. Business incubators facilitate the critical work of entrepreneurs in creating start-up companies. It is anticipated that \$250 million per year will be invested to increase the number and size of incubators in disadvantaged communities throughout the country. This portion of the stimulus package is consistent with successful past practice and part of what the economic summit has identified as potential alternative resources.



...there is no “silver bullet” or “one size fits all” solution to the problems your school district faces, and balancing cost cutting against revenue generation/cost sharing will be the formula for success.

Venture Philanthropy

One example of venture philanthropy is the use of education foundations to provide additional funding for local school districts. The education foundation movement began in California in the 1980s after Proposition 13 forced massive state budget cuts. Properly organized and effectively run, an education foundation can have a positive effect on the bottom line.

The purpose of a local education foundation (LEF) is twofold:

- Fundraising – They raise funds from the community, business, and foundations to provide funding for programs and projects that can no longer be supported by the school district.
- Advocacy – They can help ensure that the general public and other stakeholders are aware of and motivated to support these programs.

The goals of the education foundation should be to build stronger alumni support, begin to partner with business and corporate leaders, and encourage the citizens of the community to take a more active role in the education of the next generation.

MOVING FORWARD

Public-private partnerships and venture philanthropy are only two of myriad opportunities available to school business officials as they develop a sustainable framework for the new budget environment. But remember that there is no “silver bullet” or “one size fits all” solution to the problems your school district faces; balancing cost cutting against revenue generation/cost sharing will be the formula for success. This recession likely will be a watershed moment. We are already experiencing fundamental changes in the economy not seen in a generation. Although most analysts expect the recession to bottom out in early 2010, the full impact of the decline in property and sales tax revenue is unknown. To continue to build an effective education system in the coming decade, school business officials must be proactive.

You know your school district and the unique challenges it faces. You are uniquely qualified to initiate the discussions about issues and strategies described in this report. Only you can enlist the cooperation of all the individuals who are affected by the budget as well as those who can effect change. All available resources must be explored in an effort to create and build effective education and development programs that don't just deal with a short-term downturn, but position your district to succeed in a very different future. As was echoed throughout the course of the summit, the most successful school districts will be flexible, inventive, and entrepreneurial.

Only two things are certain as we move forward in this new environment. The first absolute is that change is coming and that it is here to stay. The second is that ASBO International will continue to be an advocate for you, help you identify opportunities, overcome obstacles, and strengthen the job skills and knowledge you will need to successfully meet these new challenges. The Economic Crisis Summit began the process of creating awareness of the new challenges and identifying opportunities, models, and processes for moving toward a sustainable future. To address your continued development as acknowledged leaders, ASBO International is developing a certification for school business officials. This



certification will ensure stakeholders in the education community that school business officials who carry this credential have been trained in all areas critical to the position: from leadership to the latest financial management methods.

The Economic Crisis Summit was not meant to be a static process but the beginning of a dialogue that we know must take place in every school district and jurisdiction across the United States and Canada. ASBO International will continue to facilitate that dialogue and we hope that you will share your accomplishments and challenges with us and your fellow school business officials as we navigate these uncharted waters.



ECONOMIC OVERVIEW

The current economic crisis may have begun with the financial services market but it has spread to every corner of the financial system. It would be difficult, if not impossible, to find a sector of the economy that is “recession proof.” Even sectors long considered immune from economic downturns, such as healthcare and public spending, are feeling the effect of an economy stopped in its tracks.

The fallout from the collapse of the sub-prime mortgage market has had a rippling effect. As the sub-prime mortgage market collapsed, homes went into foreclosure, consumer confidence fell, easy credit dried up, and the buying binge that most American households had been on since the 1990s abruptly stopped. Businesses could not get the short-term loans/lines of credit they needed to buy inventory, make repairs, and meet payroll. Stable, well-managed companies were caught in a downward spiral.

Although months ago, financial experts and policy makers debated whether the nation was on the brink of a recession, that debate seems to have stopped. Everyone agrees that we are, indeed, in the midst of a recession. What does that mean? The National Bureau of Economic Research (NBER), the nonprofit think tank entrusted with determining the timing of recessions and expansions, defines a recession as a significant decline in activity spread across the economy, lasting more than a few months.

According to NBER, the recession actually started in December 2007. Current indications of the severity of the recession include

- The decline in the stock market and residential property values resulted in an \$11 – \$13 trillion loss in household wealth.
- Unemployment has reached a 26-year high.
- Nearly all automakers who sell in the United States are experiencing the worst sales slump in 26 years. GM reported a 41% drop in sales in November 2008.
- In the past two years, the average house in America has dropped 20% in value, according to the Case-Shiller Home Price Index.
- Welfare rolls in at least a dozen states are climbing for the first time since the mid-1990s.
- Housing starts (the number of privately owned new homes on which construction has been started in a given period), a leading economic indicator, fell in November 2008 to the lowest level since the federal government began keeping records in the 1960s.

We have no way to determine how long the recovery will take, as there is no template for a recession of this magnitude and we do not have a benchmark against which to measure. However,

- Most experts caution that we will remain mired in the recession for at least another year.
- Unemployment may surpass 8% – the highest rate since 1984.
- It may take a decade for home values, the primary asset for most Americans, to rebound.



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...it is imperative that we think about alternate sources of revenue, public/private partnerships, community involvement, and even the core mission of our schools.

WHAT DOES THIS MEAN FOR SCHOOL BUSINESS OFFICIALS?

The major and traditional sources of funding for school districts are city/county revenue based on property taxes and state funding often generated through a sales or other tax. While there is much uncertainty about the future of the economy, most experts agree that the era of homes as a constantly appreciating asset is over. Property tax revenue will continue a steady decline as property re-assessments are scheduled and the full effect of foreclosures and rising unemployment are felt at the local level.

Counties and local school districts cannot look to the state to shore up funding, as at least 28 states are seeing record shortfalls and more are likely to feel the effects as the recession broadens and deepens. Forty-nine states have some level of statutory or constitutional requirements for a balanced budget and/or a requirement that deficits cannot be carried forward. The federal government has never been a significant source of funding for local education efforts, and with competition fierce for limited resources, it is not likely to be a source in the future.

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.

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ECONOMIC CRISIS SUMMIT

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The Economic Crisis Summit, underwritten by the National Joint Powers Alliance, took place December 11 – 12 in Washington, D.C. Twenty leading school business officials from the United States and Canada met to discuss the current economic environment and the effects on current and future budget cycles. They were joined by representatives from several education, nonprofit, and government organizations who presented case studies about public–private partnerships (PPPs) and venture philanthropy/education foundations and reviewed federal and state government reactions to the economic crisis.

PUBLIC-PRIVATE PARTNERSHIPS

Presenters: Richard Norment, Executive Director, The National Council for Public-Private Partnerships, Arlington, VA; Jay Garant, Director, Office of Business and Community Partnerships, Fairfax County Schools, Fairfax, VA; William Blackie, Executive Director, Ontario Association of School Business Officials, Markham, ON

Public-private partnerships (PPPs) have become increasingly popular during the past 20 years as a way for federal, state, and local governments to provide important public services while generating revenue, managing the level of public debt, and maximizing government-owned assets. Through this type of agreement, the skills and assets of each sector are used to deliver a service or facility for public use. The partners share resources, risks, and rewards. Public-private partnerships can cover a range of capital improvement and infrastructure projects ranging from transportation and water/wastewater to construction of public facilities such as schools.

As with any real partnership, there must be shared burdens and shared rewards for both the public and private sector participants. While there is no set formula or technique for crafting a PPP, the National Council for Public-Private Partnerships (NCPPT) identifies six keys to success.

1. Political Leadership

The appropriate statutory foundation must be in place for each partnership. Senior public officials must be willing to actively support the concept of PPPs, effectively communicate the value of a partnership to the public, and take a leadership role in the development of the effort.

2. Public Sector Involvement

Once a partnership has been established, the public sector must remain actively involved in the project. Ongoing monitoring of the performance of the partnership is important to success.

3. A Well Thought-Out Plan

A carefully developed plan that outlines expectations will substantially increase the probability of success of the partnership. The plan should include an extensive, detailed contract, clearly describing the responsibilities of both the public and private partners. A method of dispute resolution also should be defined.

4. A Dedicated Income Stream

The private partner may provide the initial funding for capital improvements, but there must be an assured means of repayment of this investment over the life of the partnership. This can be generated by a wide range of options, including fees, tolls, tax increment financing, etc.



5. Communications with Stakeholders

To avoid misconceptions and minimize potential resistance, it is important to communicate openly and candidly with all the stakeholders who may be affected by a public-private partnership. Stakeholders may include employees, the members of the public who are receiving the service, the press, appropriate labor unions, and relevant interest groups.

6. The Right Partner

A variety of factors must be considered in finding the right partner with whom to enter into a long-term relationship. The “best value” may be the partner with the right experience for the specific project under consideration, not the lowest bidder.

Large infrastructure projects are not the only use for public-private partnerships. Partnerships with the local community strengthen and enhance the quality of education and help prepare students for the future workforce. They can include everything from providing a way for the general public to make donations of needed items such as cars, computers, musical instruments, and books. Local businesses can provide mentors, tutors, career preparation, enrichment activities, internships, instructional support and curriculum development, classroom materials, financial resources, and use of facilities.

As with the large infrastructures projects, planning is an essential component in establishing a successful partnership. The following are steps in this process.

Needs Assessment

- Determine how a partnership can reinforce district or school goals.
- Identify what the business can gain from the partnership.
- Determine where the needs overlap. Is it a good match?

Goals and Objectives

- Ensure all parties clearly understand what the partnership is intended to accomplish.
- Engage the business partner in developing measurable objectives.
- Determine what resources will be needed and which party will provide them.
- Put it in writing.

Implementation

- Conduct orientations at each other’s facilities.
- Determine if training is needed for the educators or the business volunteers.
- Plan a kick-off ceremony. Include influential members in the kickoff of the program and initial activities.
- Keep key members of the school and business community informed and involved.
- Maintain communication with the business partner throughout the program.

Evaluation

- Did the partnership accomplish the goals it set?
- Is the program benefiting the participants?
- What are the strengths and weaknesses of the partnership?
- What modifications should be considered for the future?

The key, as with all new ventures, is to start small and build on each success.

As the recession widens, there is likely to be a shift in contributions from the business community. Those contributions may vary from outright grants to partnerships in which



money may not be exchanged. For example, Fairfax County, VA, the 12th largest school district in the country, recently entered into a partnership with Volkswagen of America. Volkswagen had just moved its USA headquarters to Fairfax County and was looking for a way to reach out to the local community. The Fairfax County Public School system, according to Jay Garant, the school system's coordinator of business and community partnerships, was looking for ways to provide a training ground for students in various aspects of the business so that they could go on to higher education with a foundation in this career path.

The partnership will span five years. During that time, Fairfax County schools will receive

- At least 13 Volkswagen Jettas, equipped with clean burning diesel engines that get 70 mpg, for the 13 schools that have an automotive technician program
- Educational materials, including tools and diagnostic software
- Training for Fairfax County instructors at the Volkswagen facility
- A shadowing component whereby students will go to a local Volkswagen auto shop and work with technicians
- A marketing component whereby students from 3 schools will participate in a contest to develop the best marketing plan to create awareness of the benefits of the new Jetta
- An opportunity for students to attend basic training classes at Volkswagen and receive certification points
- \$20,000 per year for transportation, instructor training, materials, administrative costs, etc.

The benefits to Volkswagen of America are

- The opportunity to put their product in front of an important demographic: the students
- A well-trained workforce
- Positive public relations within the community.

VENTURE PHILANTHROPY

Presenter: Robert New, President, Mid-Atlantic Coalition of Educational Foundations, Venture Philanthropy Partners Board Member

Venture philanthropy is a type of charitable giving that takes concepts and techniques from venture capital finance and traditional business management and applies them toward achieving specific philanthropic goals. Venture philanthropy is generally characterized by

- A willingness to experiment and try new approaches
- A focus on measurable results
- A readiness to shift funds between organizations/goals based on the tracking results
- Multi-year funding
- Human and intellectual capital as well as financial capital.

Venture philanthropy funds can come from a traditional foundation, an organization funded by individuals, or a partnership model in which investors donate money and engage directly with the grantees. The venture philanthropy fund can be based on an endowment, but most are pass-through funds—they grant out all the money that they are given each year.



One increasingly popular type of venture philanthropy is the local education foundation (LEF). The LEF movement began in California in the 1980s as a response to the effects of Proposition 13. There are now approximately 6,000 local education foundations nationwide.

A local education foundation is an independent community-based organization that supports the education efforts of the school district through a long-term school–community partnership. It must be registered and incorporated by the state and paperwork filed through the IRS to establish it as a 501(c) (3) foundation and governed by an elected, volunteer Board of Trustees. The main purpose of the foundation is to strengthen and promote public education by providing supplemental funding to enhance and enrich educational, cultural, and athletic programs that can no longer be supported by the school district budget.

The local education foundation functions as both fundraiser and advocate by building alumni support, partnering with business and corporate leaders, and encouraging the citizens of the community to take a more active role in their support of the students and the school district. As a fundraiser, most LEFs set a financial benchmark, per student per year. While the amount is based on the needs as well as the school district’s and the community’s ability to give, a range of \$20–\$40 is considered a good target. As an advocate, the LEF should represent the interests of the school district and the efforts of the foundation by helping educate the public and advocate with local and state policymakers on behalf the foundation’s mission.

Many critical issues affect the future funding of public education. Local education foundations are one way to engage the community in helping solve some of the financial shortfalls facing school districts. The creation of an LEF may seem daunting and the short-term reward may not seem evident, but over the long run, it may provide a critical piece of the funding pie.

GOVERNMENT REACTIONS

Presenters: Thomas P. Skelly, Acting Chief Financial Officer, U.S. Department of Education, Washington, D.C.; Elizabeth McNichol, Senior Fellow, State Fiscal Project, Center on Budget and Policy Priorities, Washington, D.C.; and Larry Getzler, Chief Economic Analyst, Virginia Department of Planning and Budget, Richmond, VA

States are facing the worst financial crisis in decades. At least 44 states are facing budget shortfalls for this fiscal year and the next. More than half the states have already cut spending, used reserves, or raised revenue in order to submit a balanced budget for the current fiscal year which began July 1; at least 31 states had fallen out of balance as they approached the mid-point of the year. Further budget reductions are likely to affect the most vulnerable citizens.

For example,

- 17 states have implemented or are considering cuts that will reduce eligibility for health insurance or access to health care services for low-income families.
- 15 states are cutting medical, rehabilitative, home care or other services to the elderly or those with disabilities or significantly increasing the cost of these services.
- 16 states are cutting or proposing to cut K–12 and early education; several are reducing access to childcare and early education.



Everything about the current state of the economy suggests that there will be multi-year fiscal suffering.

- 21 states have implemented or proposed cuts to public colleges and universities.
- 10 states have proposed or implemented reductions to their state workforce.

These gaps will almost certainly widen as the continuing crisis brings revenues in below estimates in more states. Budget cuts are often more severe in the second year of a state fiscal crisis. Everything about the current state of the economy suggests that there will be multi-year fiscal suffering. The housing market may be the slowest sector to recover. For local governments, this means property tax revenues will continue to be adversely affected as inflated home prices come down and a glut of foreclosed homes re-enter the market. This will cause local governments to look to the state to reduce the stress on their education budgets.

On the state level, if the employment situation continues to deteriorate, income tax revenue will weaken and there will be further downward pressure on sales tax revenue as consumers become reluctant or unable to spend. This will mean dwindling state revenues and deeper cuts, placing increased pressure on the very services that are needed most in an economic downturn.

Unlike the federal government, the majority of states are prohibited from running a deficit or borrowing to cover budgetary operating expenses. This leaves states with four primary recourses during a fiscal crisis:

- Draw down available reserves
- Cut expenditures
- Increase revenue
- Liquidate assets (buildings, vehicles, etc.).

More than a few states have already begun drawing down reserves, and as a result, have insufficient reserves to weather a deep or prolonged recession. In some states, the rainy day funds never fully recovered from the 2001 recession.

Expenditure cuts during an economic downturn have a “pro-cyclic” effect. They can further slow a state’s economy, extending the downturn and impeding the recovery on a national level. Federal assistance can lessen the extent to which states take these pro-cyclical actions. For instance, in response to the 2001 recession, the federal government provided \$20 billion in fiscal relief in a package enacted in 2003. This assistance helped avert even deeper cuts in public health insurance and helped prevent cuts in a variety of other critical services. The fact that it was enacted many months after the beginning of the recession caused it to be less effective than it could have been in preventing states from taking actions that deepened the economic downturn.

Any stimulus or recovery package must have at least two vital elements to be successful. First, it must be timely; second, the dollars must be of a magnitude to affect change.

ALTERNATIVE FUTURES PROCESS

Alternative futures uses the principles of scenario planning to help organizations, from global businesses to local nonprofits, make decisions when the future is uncertain and maintaining the status quo is no longer an option. This process was used at the summit to assist in the development of solutions to the crisis.



Scenarios are stories about how the future might look. They are meant to be hypotheses, not predictions. They are created in sets of stories, usually three or four, that envision a range of futures and the opportunities and threats they present. Each story about the future models a distinct, plausible world in which we might someday live or work.

Unlike in forecasting, in scenario planning, you don't predict a single outcome; you posit several potential futures – none of which will probably come to pass as presented but all of which will challenge the prevailing mindset and make you aware of the forces that will affect your current decisions. It provides a way of thinking about and managing change.

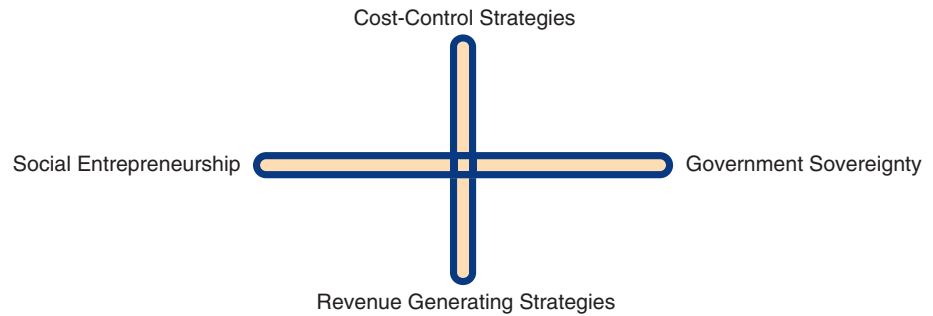
The process begins by identifying the focal issue or decision that needs to be addressed and determining the key drivers at work in the current environment. These drivers fall into four categories:

- Social Dynamics – For example, how influential will the senior population be in the next 10 years?
- Economic – For example, will we be able to find the skilled workforce that we need?
- Political – For example, how will changes in the tax structure affect my business?
- Technological – For example, will the widening availability of wireless technology negate the need for landline phones?

From these driving forces there will be certain “predetermined” elements that are largely outside of our control. For instance, the number of high school students in 10 years will be more or less determined by the number of children in elementary school now. After the predetermined elements are identified, you are left with a number of uncertainties. These should be narrowed to the few that are most important to the focal issue or decision.

Some commonality among the uncertainties can be simplified to form a matrix that will define the four very different, but plausible, quadrants of uncertainty. Each of these four corners becomes a logical “future.”





Above is the matrix used at the Economic Crisis Summit. It is based on the current trends influencing traditional sources of school funding, including

- A systemic decline in key sources of state and local government revenue
- A growing dichotomy between schools and labor markets caused by an increasingly mobile workforce, reducing the return to education for local municipalities
- A downsizing of American/Canadian businesses, making assessing employer needs more difficult
- The growth in virtual work environments
- A growing role of private and nonprofit participation in public school services

Attendees chose two sets of diametrically opposed futures from among the variables listed above.

- Sharing Responsibility through Social Entrepreneurship vs. Managing Resources and Priorities through Government Sovereignty
- Cost-Control-Driven Policies vs. Revenue Creation Experimentation

While scenarios can sometimes project 15 years or more into the future, such long-range projections are rarely justified. The further out one projects, the more “wild cards” (such as new technologies, changing political regimes, etc.) can arise to challenge the fundamental assumptions of the scenarios. For the purposes of the summit, the scenarios take place in 2012.

The questions surrounding the scenarios generally fall into two categories: “What would we do if...?” and “What needs to happen if...?” Over the course of the two days, the participants were asked to address the following question for each of the futures outlined.

1. Who provides school services?
 - What new partners are engaged?
 - Who are the new gatekeepers?
 - What kinds of new organizations are involved?
2. What has changed for school business management and financing?
 - What new practices have emerged?
 - Who sets the rules for such practices?
 - What new kinds of relationships have emerged? How does managing those relationships differ from traditional practices?
 - Are there new competitors for school business management?
 - Who are school business officials’ new partners and peers?

3. What infrastructure changes need to be effected to ensure that school business managers can succeed?

- What laws need to be changed?
- What financial rules need to be developed?
- How has authority shifted and to whom?
- What new public relations problems have arisen and how are they managed?

Attendees were organized into four groups to conduct and document “dress rehearsals” of the alternative futures process, both for their own practice and to help colleagues across the country. Their ideas about what reactions to anticipate from their district constituents and examples of potential solutions to fiscal challenges are presented in the following sections of this report. We hope that they will inspire you to explore novel solutions in your own district.



PLANNING FOR A SUSTAINABLE FUTURE

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...it is necessary during the budget preparation process, to consider a combination of budget adjustments; revenue generating and cost-sharing approaches; as well as, short-, medium-, and long-term solutions.

Recessions are notoriously uneven. They hit some industries and regions harder than others. This recession is expected to be wider and deeper than any recession to date. Some sectors may be “recession resistant,” but there are none that are “recession proof.” In past recessions, the nation has recovered to pre-recession status within a few years. This recession is not likely to follow any prescribed formula; there are however, a few points to consider as you move forward into a “new normal” economic time.

The era of the home as a steadily appreciating asset and a ready source of equity is over. Based on the large number of foreclosures and the subsequent decline of real estate value, property tax revenue is not expected to rebound for a decade, thereby reducing local governments’ most reliable source of revenue for the foreseeable future. Consumer and business access to credit is less than in previous recessions, meaning sales taxes will fall more than in the past. Unemployment could reach 9% by the end of 2009. The “pro-cyclical” nature of recessions indicates that reduced tax revenue will mean budget shortfalls; budget shortfalls will mean program cuts. Program cuts will mean lay-offs. Higher unemployment means increased pressure on already stretched services.

The Economic Stimulus Package being readied by President Obama will reportedly reach \$850 billion over two years. While the specifics are not known, it is estimated that schools and roads will share an immediate infusion of \$25 billion. According to the American Federation of Teachers (AP, January 1, 2009) “it will take 10 times that amount in maintenance, new construction, renovation, and retrofitting to fully modernize America’s schools.” However, if the federal funds require matching funds from the state or local government, any immediate effect on the economy will likely be stalled because of cuts already made to state and local budgets.

Regardless of the amount or the timing of the aid, it will not affect all school districts in the same way. In addition to direct aid for construction and renovation of schools, another element of the proposed stimulus plan will be the creation of a national network of public-private business incubators to support entrepreneurship and spur job growth.

No matter what approach(s) you choose to address the budget shortfalls in your school district, there will be long-term consequences. That is why it is necessary during the budget preparation process, to consider a combination of budget adjustments; revenue generating and cost-sharing approaches; as well as, short-, medium-, and long-term solutions. Choosing a balanced approach will provide a framework for decision making that acknowledges that while budgets need to be reduced in the short-term, the long-term goal of providing a quality education for a generation of children is not compromised.

ANTICIPATION

As we deal with economic issues in these troubled times, it is human nature to begin the “blame game.” We all need someone to blame for the economic crisis. As districts are forced to cut funding for programs, you may be the person on whom your community members place the blame. Be prepared to address consequences of the current economy that may fall at your doorstep. Be a directive leader, as those without answers will look to you to define the problem and offer solutions.



...what may be a short-term solution or activity to one school system could be categorized as mid-range or long-term in another.

Here are just a few of the issues that you can anticipate in the coming months, as you move forward:

- Defaults on debt
- Anxiety about and resistance to change
- Union collective bargaining challenges and opportunities
- Long-term workforce decline
- Defensive posturing by other school employees, parents, community members, business representatives, etc.
- New competitors for school based and district based level services purporting to do what you are doing bigger, better, stronger, and cheaper
- Changes in authority at local and state level agencies
- Perception that changes to current practice signal a potential loss of school district control
- New partners and peers
- Pressure to take increased risks on investments to maximize interest earnings
- Reduction of property tax collection issues relative to mortgage foreclosures
- Erosion of property tax base based on assessed valuations
- Re-evaluation of residential and business tax assessments
- Potential mill levy increases to accommodate long-term debt payments
- Impact on any jurisdictional spending caps
- Effect on credit ratings (Moody's, S&P, Fitches, etc.)
- Impact on capital construction
- Government Obligation (GO) Bonds
- Impact on cash flow/lines of credit
- Impact on short- and long-term borrowing
- Tax anticipation notes
- Erosion of investment principal
- Unanticipated student enrollment declines due to various economic factors
- Unanticipated student enrollment increases due to various economic factors
- Increased participation in the federal free and reduced-price meal programs
- Unanticipated expenses due to increased cost of goods and services
- Ability/inability to enter into lease purchase agreements
- Conflict with local, state or jurisdictional regulations and/or constitutional authority.

THE ART OF THE POSSIBLE

The following is a list of possible short-, medium-, and long-term solutions developed during the summit in response to the scenarios that were presented. They are not listed in any particular order. Each approach will present its own challenges and opportunities and is meant to be a departure point as you continue to discuss and weigh your options in your school districts. Keep in mind that what may be a short-term solution or activity to one school system could be categorized as mid-range or long-term in another. As well, what works for one school system may not work for another. You are best equipped to evaluate these ideas in terms of probable or possible success they may bring to your situation. Above all, remember that the students in our school system are our most important asset, our mission, and our focus.



In this era of the “new normal” you will need to

- Plan for the good times as well as the bad. Things will turn around eventually.
- Free up resources. If there is any low-hanging fruit still around, now is the time to cut it.
- Clearly define “wants” versus “needs.”
- Define or redefine school systems’ “core mission.”
- Redeploy assets—current and future resources.
- Look at what has worked and what hasn’t, and then eliminate what hasn’t.
- Allow no “sacred cows.”
- Identify lessons learned from others, such as GM and Ford.
- Identify key communicators, partners, and staff.
- Educate everyone about the situation, including community, staff, and business partners. A crisis does, indeed, exist.
- Look to private sources for revenue, such as education foundations and venture philanthropy.
- Identify financial rules or laws that need to be developed or changed and begin lobbying efforts toward that end.
- Build partnerships with local businesses.
- Review fees for services in all school system areas.
- Begin discussions with employee bargaining groups relative to the issues at hand. Ensure employees are part of the solution.
- Define the new paradigm before it defines you. Desperate times require shifts in how we think, act, and react. This is a paradigm shift that we must all understand in order to manage the issues before us.
- Prepare and inform stakeholders. Help them connect the dots.
- Build trust in community. Make budgeting a transparent process.
- Develop advocacy efforts (legislative, business, community).
- Manage push back when funding sources change.
- Become adept at public relations, communications, and marketing.
- Engage beyond direct community stakeholders.
- Be leaders in the education community and active in the business community.
- Identify legal, political, and financial barriers, and learn how to deal with them.
- Assure businesses partners there is no going back. Commit to the long term.
- Demonstrate results and continually prove them.
- Build relationships with vendors, suppliers, local businesses, and other non-profits.
- Collaborate with other school entities, from pre-schools to colleges.
- Institutionalize practices so as not to move backward.
- Demonstrate your school system’s efficiency relative to spending.
- Rate your school system’s expenses relative to your mission. Rate each expenditure with its importance to your mission.
- Consider
 - Increased class size
 - Aides vs. teachers in classrooms
 - Online learning
 - Four-day week
 - Rolling attendance



The economy eventually will rebound and you will want to sustain some of the changes you made and discard others.

- Working with colleges and universities to offer AP classes rather than offering them at high schools
- Regional education service centers who oversee individual districts
- Green initiatives
- Retirement incentives
- Rehiring retired teachers at lower salaries
- Pooling purchasing with other government entities for supplies, facilities, security, etc.
- Consolidation of services
- Participation fees
- Varied methods of delivering instruction
- Job sharing
- Volunteer corps.

• **HAVE A POST RECESSION PLAN.**

The economy eventually will rebound and you will want to sustain some of the changes you made and discard others. As cost cuts/reductions are reviewed, it is imperative that school business officials think ahead and include a rebuilding effort into their plans. For example, increasing class sizes will not be something that most school systems will want to sustain. That said, increased numbers of teachers will be needed to fill those once-vacant slots. Planning for those eventualities must occur now when the cuts are being made.

While this list does not present all of the possible responses to the many scenarios our school districts face now and may face in the future, it is intended to serve as a starting point for school business officials as they begin to address the issues brought on by the economic crisis.



As you consider the future, the key is to understand and manage uncertainty while balancing the relationships of multiple stakeholders and developing strategies that address diverse needs and points of view.

NEXT STEPS

School business officials must consider many factors as they engage their communities in discussions about sustainable solutions to the long-term effects of the recession and its aftermath. Few predictors are available for guidance. Yet, by engaging all appropriate stakeholders in a dialog about the challenges and opportunities of the future, by challenging the status quo, together, you will forge a more effective path for success in the future. As you consider the future, the key is to understand and manage uncertainty while balancing the relationships of multiple stakeholders and developing strategies that address diverse needs and points of view.

This recession likely will prove to be a watershed moment. Many areas will undergo changes not seen since the post-World War II era and the start of the 1970s post-industrial economy. The public education system will not be immune to these changes. The nature of this recession is such that you will not be able to wait it out. Current projections suggest that the technical end of the recession will be in the first quarter of 2010. It will take much longer for property tax and sales tax revenue to rebound.

School business officials must be prepared to meet these challenges head on. Two important tools for success are public-private partnerships and venture philanthropy. These relationships will be vastly different from the traditional vendor/supplier relationship. Outside entities—those that assume risk—will want a say in the decisions regarding what services are offered to the public school system and how they are offered. If school business officials don't shape the discussion the private sector will.

Many are counting on positive change as President Obama rolls out his economic stimulus package. However, we cannot count on the federal government to balance or manage our budgets. The government certainly will help provide resources and opportunities, but the school systems that are successful in riding this wave will be those that have become entrepreneurial and resourceful in dealing with the issues at hand. School business officials must step forward to initiate discussions like those described in this report.

The focus should be on prioritizing the district's essential needs, exploring potential resources, creating an implementation plan, and enlisting individuals to execute the plan. As school business officials, you possess the most intimate knowledge of the financial and operational workings of your district and therefore must be central to all phases of discussion, planning, and implementation. As this summit illustrated, the new economic realities will herald an expanded role requiring new skills, leadership training, and access to a professional network of communication and support.

Our primary goals in convening the summit were to create awareness of a "new normal" in the economic underpinnings of public education, to provide models and a process for moving toward a sustainable future of support, and to anticipate and foster the qualities and skills that will enable school business managers to lead their districts to that future. This report addresses the first two goals by focusing a spotlight on the economic reality and exploring paths to engaging it successfully. The "new normal" of school business officials will require managing relationships as well as managing resources. To address the third goal, development of



acknowledged leaders, ASBO International has embarked on the creation of a certification for school business officials. This certification will ensure school systems and communities that school business officials who carry the certification have been trained in all areas necessary from leadership development to the latest financial management skills, and are fully capable of handling any issue that may present itself.

We are confident that together, ASBO International and school business leaders in small districts to major jurisdictions can find the right combination of solutions to ensure that your districts provide the future generation the quality education experience that they deserve.

For more information about this or other ASBO International Programs, please visit us on our Website at: www.asbointl.org, or contact John Musso, executive director at jmusso@asbointl.org.



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