COVID-19: Financial Implications for School Districts

Tackling the Short-Term Issues and Anticipating the Longer-Term Issues

April 28, 2020

Before the pandemic, school districts faced a *triple squeeze* that complicated transformation efforts

A higher bar for student learning and greater needs

Unsustainable cost structures

Flat or declining revenue

The pandemic is exacerbating the squeeze; and highlighting our pre-existing challenges in ways that may drive us closer to action

A higher bar for student learning and greater needs

Unsustainable cost structures

Flat or declining revenue

Greater depth, breadth & inequity of **student need**

Ongoing constraints on service delivery from **social distancing**

Even greater financial pressure due to precipitous drops in tax revenue

Meeting Greater Needs

Responding to this challenge will require investment in several areas

Assessing student learning & social-emotional needs

Providing extra time, staff & programming for education recovery

Providing social-emotional support

+

Social distancing imperatives

Today's objectives:

1. Build understanding of the severity of the fiscal outlook
2. Think about SY 2020-21 financial circumstances in combination with academic priorities that respond to challenges and inequities exacerbated by COVID-19
3. Prepare for scenario planning and build understanding of key considerations
4. Support the development and guide the focus of internal teams established to manage fiscal crisis

We need to maximize short term savings and build planning scenarios for SY2021 that cover a wide range of spending now

SY2021 Outlook	Magnitude
SY1920 Savings	+ 0 to 3%
CARES/Stimulus Allocation	+ 3 to 6% (so far…will likely go up)
Reduced Revenue	- 5%? to 15%? (highly variant & preliminary)
Subtotal:	**+1% to -12%**
Investments for new needs	+ ???
Investments for social distancing imperatives	+ ???
Total Needed Reduction in Spending:	**??? (likely significant!)**

FY20 savings appear to be less than 3% across districts studied

HIGHLY PRELIMINARY DATA

Potential Savings	0.5% Conservative	3% Aggressive
Substitutes	0%	0.6%
Hourly Pay	0%	0.3%
Stipends and Overtime	0.1%	0.2%
Supplies and Equipment	0.1%	0.3%
Transportation	0.1%	0.3%
Contracts:	0.1%	0.4%
Travel	0.1%	0.5%
Hiring Freeze	0%	0.3%
Utilities	~0%	0.1%
New Expenditures	**Less than 1%**	
Food Service (Unreimbursed meals)	~0.25%	
Technology and Distance Learning	~0.50%	
Other (Hazard pay, sanitation, risk management loss)	Less than 0.25%	
Net Savings for FY20	**0%**	**2 – 3%**

Remaining Options to Maximize Savings:
Big remaining opportunity is using districtwide furlough/banking to add days to SY2021 calendar… notwithstanding the challenge of negotiating it with CBUs

Source: School district interviews and ERS analysis of district budgets

CARES Act provides incremental funding, greater flexibility on existing federal funds (and imposes new costs)

Funding

- $13.5 billion El/Sec Fund + $3.0 billion Governor's Ed Fund (~3% of current K12 spend)
- El/Sec Fund district allocations are **~85% of district of Title I allocations**
- Intended for crisis management, but broad range of allowable uses
- Governors decide allocation & use of $3 billion – broad range of allowable uses

Flexibility (with waivers)

- Use Title II $'s more flexibly
- Carry over as much Title I money as they want from 19-20 to 20-21
- Use Title IV funds more flexibly, including for social-emotional support, mental health and digital devices
- Run schoolwide Title I programs regardless of the share of low-income students in districts and schools

New Costs

COVID-19 public health emergency leave:

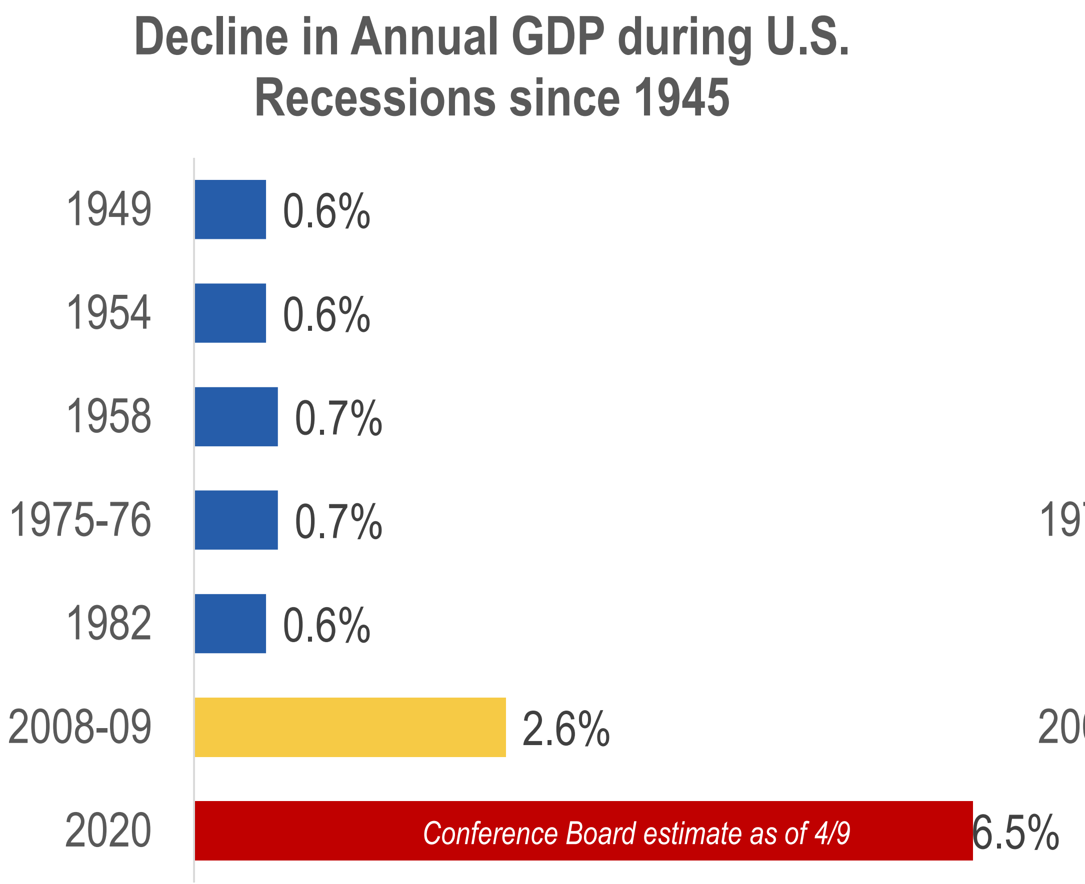
- Effectively extends FMLA & sick leave coverage well beyond prior minimums (up to 24 weeks)
- Extends employee eligibility for coverage to 30 days on payroll

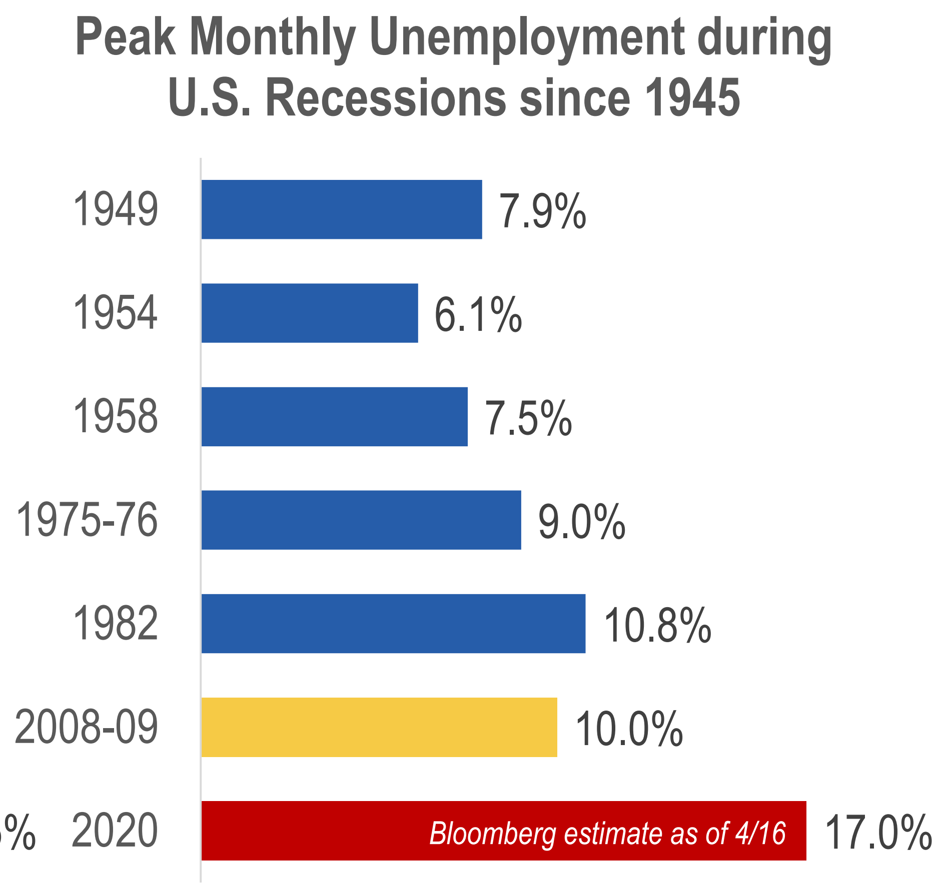
Notes on additional federal stimulus $s [EdCounsel]:

- Could be multiple rounds, starting this summer (before election)
- "$200 billion number running around is not out of the question" (over multiple years)
- "Really unknown"

Sources: CARES Act, NCSL, EdCounsel/Nelson Mullins, Education Week, District Administrator, ERS analysis.

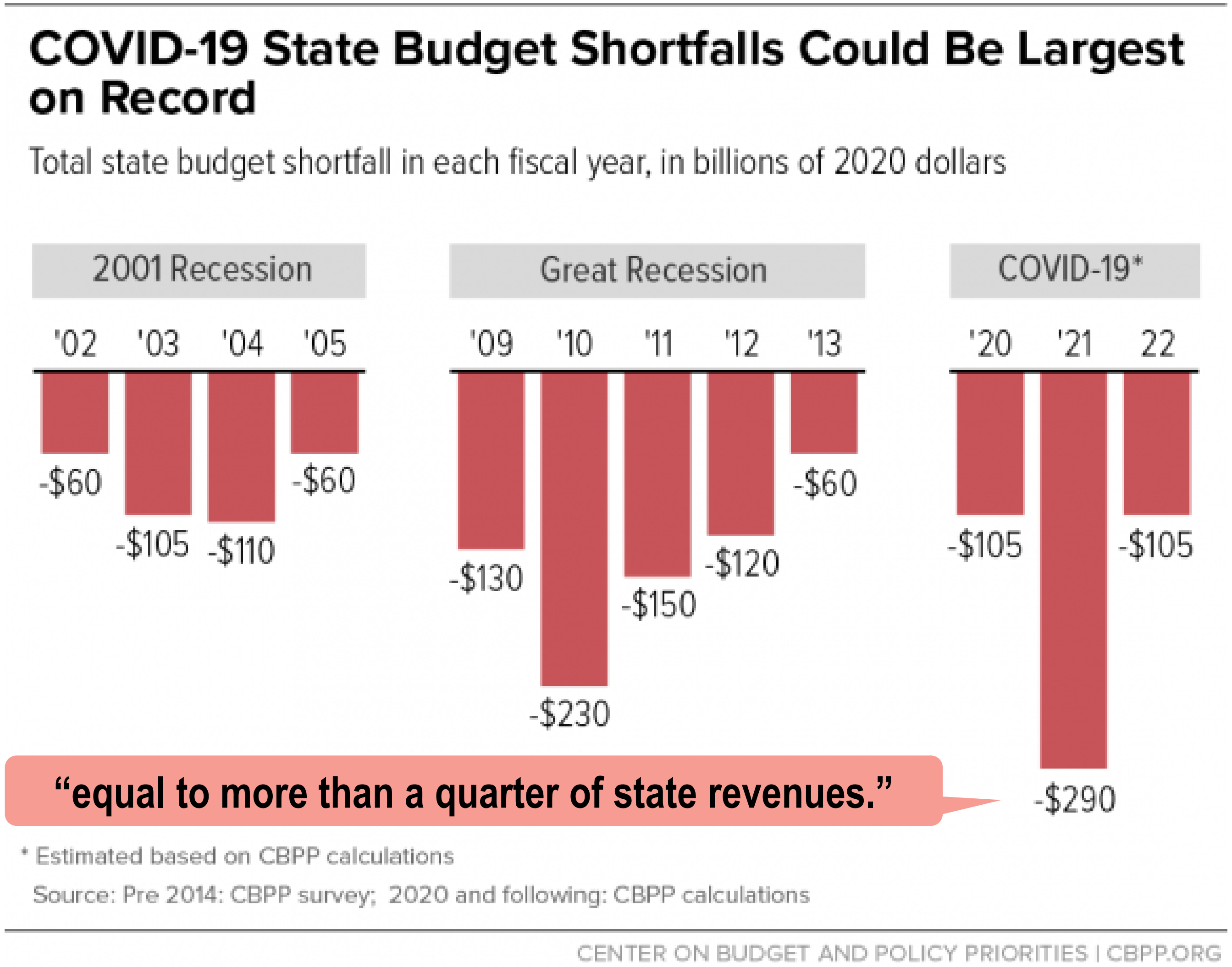
Economists predict the pandemic is driving an economic decline significantly larger than the Great Recession…





Source: Historical data from Bureau of Economic Analysis and Bureau of Labor Statistics. 2020 projections from The Conference Board (GDP, https://conference-board.org/data/usforecast.cfm, updated 4/9/20) and Bloomberg (unemployment, https://www.bloomberg.com/news/articles/2020-04-16/u-s-jobless-claims-total-5-25-million-in-week-four-of-lockdown).

… with a commensurate impact on state budgets, according to CBPP



Notes & Caveats

- Projections are preliminary and will change ongoing
- Policy-makers need to apportion cuts across gov services (K12 may be cut more/less than its “share”)
- State revenue more volatile than local (mostly)

District Revenue Loss

Mix of district revenue from state sources and broader economic factors will create significant differences in revenue loss across districts

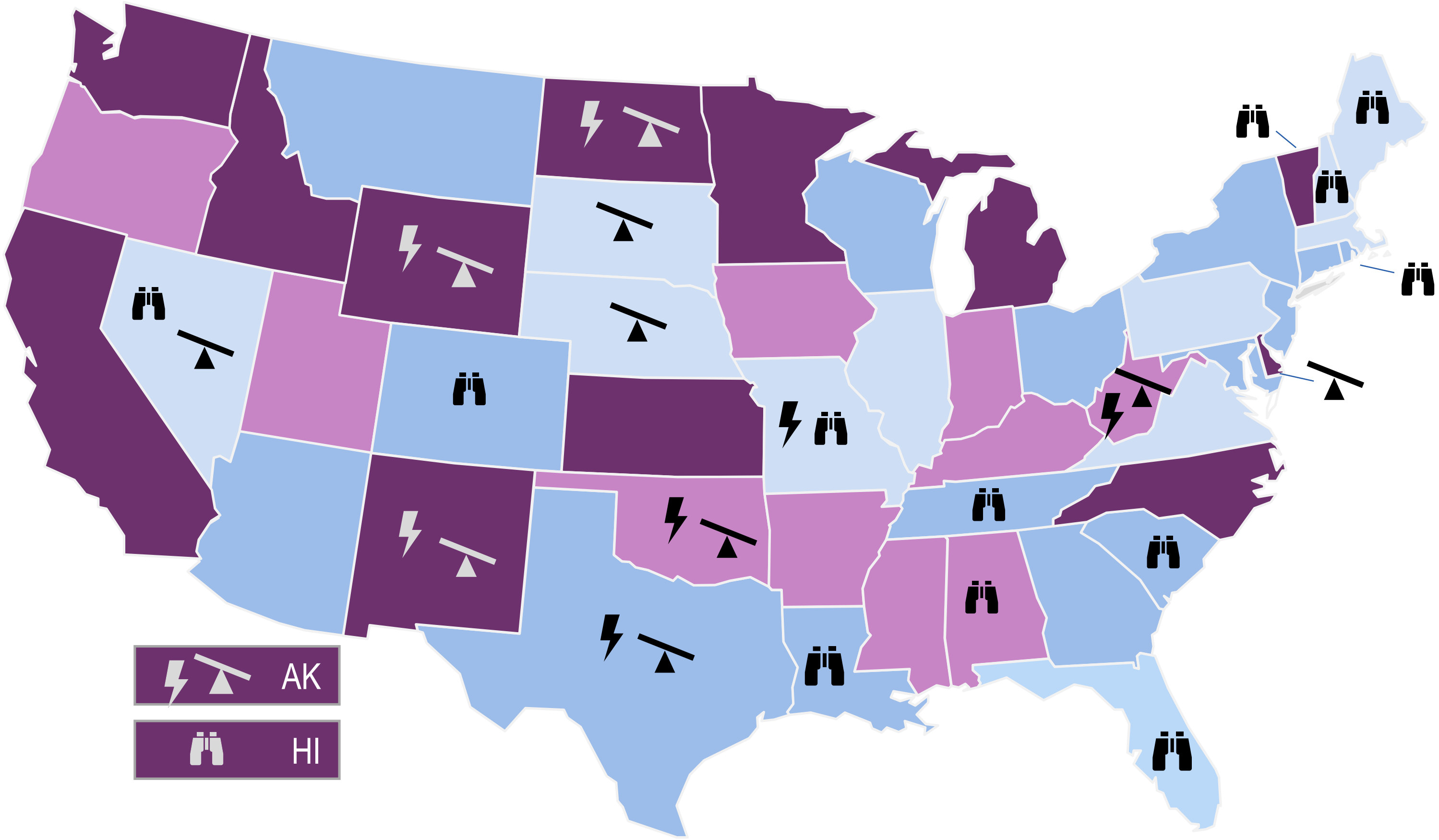
Projected impact of a 25% decline in state revenue, ***holding all other revenue constant****

<10%	10-12	12-14%	>14%
States not included in categories below			

Energy-reliant states: Severance taxes comprise at least 5% of state revenue

Tourism-reliant states: Tourism accounts for at least 5% of state GDP

States with least diversified economies, regardless of industry: Hachman Index < 70



* I.e. does not include potential decreases in local tax revenue or additional federal stimulus dollars

Sources: NCES, Pew Trusts, University of Utah Hachman Index, ERS analysis. U.S. average for Hachman Index is 89.1.

SY2021 Scenario Planning: What might new strategic investments look like?

- Implement comprehensive “re-entry” assessment strategy for each student including social emotional well-being, and re-engage students who didn’t participate in remote learning
- Start school early for all or some students
- Add two weeks of teacher time to plan instruction based on assessment data and learn about integrating new instructional strategies for recovery
- Re-equip classrooms/students with technology/devices
- Extend school day to provide additional time and/or reduce building capacity/group sizes
- Partner with outside organizations to provide extra tutoring and social emotional supports
- Intensive supports for special ed, ELL and other high-needs populations
- Engage in professional learning to integrate and scale trauma-informed practices into instruction across school levels

SY2021 Scenario Planning

Traditional budget reductions only get us so far – and some don't match our current reality

Typical Reduction Options	Rough Magnitude	Watch-outs/Challenges
Increase class sizes by 3 across all grades	3.9%	May run counter to social distancing mandates; exceeds natural turnover so would require RIF
Reduce employee benefit costs by 10%	2.0%	Health costs may be going up; hard to negotiate quickly
Cancel all contracts for professional growth, curriculum development, research and school support	2.0%	Support to retool instruction may be needed now more than over
Freeze salary step increases for one year for all employee contracts	1.0%	
Bring special education class sizes from 70% to 75% of target size	0.6%	Special Ed Maintenance of Effort requirement still in effect; remote learning for SpEd may warrant lower caseloads
Reduce extra spending on very small schools by 10% by changing staffing models and funding formulas	0.3%	
Reduce school-based administrative and clerical staff by 10%	0.3%	May run counter to lengthening school day
Reduce transportation costs by 10%	0.3%	May run counter to social distancing mandates
Cut instructional materials/textbooks by 10%	0.3%	
Total: 10.7%		

As such, it’s important that we’re deliberate about impact, feasibility, and cost for our new strategies

NOTE: We may not need to be bound by existing cost structures given depth of need and available revenue.

So…what does all this mean our teams should be working on right now?

	Current Resource Challenges	What should we be doing to address them now (or by early May)?
SY1920	Maximize savings/fund balance	• Forecasting end-of-year position with dependencies (i.e. state & local revenue rescissions; free meal/FEMA reimbursements) • Exploring viability of and decide on end-of-year furlough to add time to SY2021 • Pursuing FEMA reimbursement & maximizing CARES allocations
SY2021	Plan to adjust service delivery given greater needs, potential for ongoing restrictions & reduced revenue	• **Start exploring options/models for assessments, S/E supports & academic recovery (cost, feasibility & impact) to inform school planning redux** – Collecting info/best thinking on inputs (student need, possible restrictions, revenue projections) – Capturing lessons from current remote learning that might be adapted for next year – Designing process to create scenarios (flat, -5%, -15%?) based on ranges of assumptions – Pre-engaging key stakeholders (CBAs, Board, etc.)

Appendix – for more info…

COVID-driven learning challenges & interventions

How do we adapt schools and system supports to:

- Re-engage students in in-person schooling to support attendance and meet immediate needs, particularly at transition grades (e.g. Grade 6, Grade 9)
- Design and scale targeted interventions to meet unfinished learning needs in literacy and math across school levels
- Integrate and scale trauma-informed practices into instruction across school levels
- Balance a potential need for greater mastery-based instruction while ensuring student access to grade-level content
- Design hybrid in-person and virtual delivery systems that account for different social distancing scenarios (e.g. all students at home v. subset of students in school v. rotation of which students are in school at any given time)

These challenges raise the urgency for the key shifts in resources that "strong schools" already employ…

- Re-think rigid class sizes and one-teacher classroom models to target individual attention, especially for struggling students.
- Optimize existing time to meet student and teacher needs and expand as needed
- Rapidly evolve teacher professional learning and support to meet new pedagogical demands, including the need for increased time
- Leverage staff and community partnerships more effectively to meet the continuum of students' needs
- Improve the use and function of support staff- e.g. counselors, paraprofessionals, instructional coaches- in the execution of new strategies
- Address anticipated severe budget cuts in ways that minimize the negative impact on learning, especially for the most under-served populations

Source: ERS.

… and demands that we build on innovations that are emerging in the current crisis

- District leadership teams actively using technology for communication
- Teachers using technology to delivery support and material to students
- Students helping each other via technology
- Parents accessing digital content and engaging with teachers over the internet
- Students and parents learning to create at-home learning schedules
- Teachers working part time to support learning in new ways
- Teacher leaders playing new roles
- Flexible uses of teaching and learning time

References/Further Readings/Resources…

Organizational Process: Having a planning team that's looking around the corners to handoff plans to others who focus on operations and execution

Ongoing Social Distancing: Digest of service delivery models from Denmark – likely starting points for SY2021

Framing the Challenge: How to manage past the uncertainty to plan for less revenue, greater need & ongoing social distancing

State Revenue Outlook: The Center for Budget & Policy Priorities is updating resources on this topic frequently