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ERS BRIEFING

Financial Implications of COVID-19:

Capturing FY20 Savings (or Not) in School Districts

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EDUCATION RESOURCE STRATEGIES

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Introduction

In the wake of COVID-19, school systems face a daunting set of challenges as they plan for the 2020-2021 school year. First, students will come back to school with a **greater breadth and depth of academic and social-emotional needs** — and schools will have greater inequities to address. Second, **physical distancing requirements** will dramatically change how school is done. How new requirements translate into new school models will depend on decisions made across federal, state, and local levels. Finally, **revenue loss** will be significant — driven primarily by declines in state revenue, with potentially meaningful hits to local revenue in the next one or two years. To date, the magnitude of revenue loss greatly exceeds federal stimulus, and the outlook for future stimulus is uncertain.

School systems must prepare for the 2020-21 school year with an **integrated decision-making process** that responds to budget reductions, physical distancing implementation, and meeting greater student needs in an aligned way**.** This will require making strategic tradeoffs and long-term changes to underlying cost structures. Additionally, to plan for uncertainty and a range of scenarios, systems must make resource decisions in ways that preserve flexibility to adjust course and respond to significant changes throughout the year.

In the process of closing out FY20, school systems should take stock of how COVID-19 has impacted their net fiscal position and should critically evaluate any remaining levers to maximize savings this year. Accurate and updated projections for FY20 are needed to inform decisions about spending reductions in FY21, which will depend heavily on how much fund balance or prior year savings can be used to buffer revenue loss. Given the magnitude of revenue losses forecasted for FY21 and FY22, every dollar that school systems can save now is a dollar less that will need to be cut later. Additionally, spending decisions that were made during school closures may have occurred outside of typical budget processes in order to expedite crisis response, so traditional end-of-year projections that don't look closely at unplanned spending and savings may not accurately reflect a system's true financial position.

To explore how COVID-19-related spending and savings impacted school systems' end-of-year financial position, ERS worked with finance leaders in four large urban districts to examine the **key areas of spending and saving associated with their emergency response and shift to remote learning.** We supplemented this research with surveys and discussion with our CFO Strategy Networks and a review of national media coverage on school districts' COVID-19 spending. To build a clear assessment of incremental spend and save, our analysis focuses on district expenditures only and does not include the impact of SY19-20 revenue loss or CARES Act funding.

Our findings show that school systems are expecting, *at best,* net savings of 2 percent to 3 percent of their total operating budget relative to planned expenditures.[1] **In many cases, systems expect savings of less than 1 percent.** In this ERS Briefing, we explore the key decisions districts faced during their COVID-19 response and how those decisions, in combination with districts' local context, impacted their FY20 end-of-year position. We share these findings to shed light on the magnitude of what can be expected from school systems' savings (and why), to help district leaders identify remaining options for increasing savings during the current fiscal year, and to inform state appropriations and policy for FY21.

First Look: FY20 Projections

In K-12 school systems, staff compensation (salary and benefits) constitutes the vast majority of operating spend (approximately 70 percent) — so the biggest factor in determining if districts could capture meaningful savings from school closures is whether or not they made changes to staffing, such as furloughing or reducing positions.[2] Given the timing of the pandemic (late in the school year) and the unpredictability of its duration (especially at the onset), districts did not immediately consider reductions in staffing. Furthermore, the need to support students and families through the crisis and the transition to remote learning meant that the majority of district employees — including central office staff, teachers, school leaders, and front-line support staff — were still needed to work, albeit in different capacities. Finally, in many cases the nature of the crisis thrust school systems into a position of first responders in supporting the community. As part of this role, some districts saw a duty to financially support their employees to the extent possible.

Who are our districts?

We profiled four large urban preK-12 school systems from across the country, including the West Coast, Mid-South, Southeast, and Northeast. All four districts serve high-need communities where 70 percent or more of students are economically disadvantaged. District enrollment ranges from 40,000 students to over 100,000 students. Annual operating budgets range from $600 million to over $2 billion. For comparability, all four districts closed schools beginning March 16 and have fiscal years ending in June.

In general, new expenditures were less than 1 percent of the budget and were largely driven by if districts incurred costs related to technology and food services. In the urgency of crisis response, districts repurposed unspent funds in other areas to pay for new costs, and many reported that these new costs largely offset potential savings opportunities. Districts that captured more savings were those that proactively pulled back spend from substitute teachers, hourly pay, supplies, transportation, and other discretionary areas — each of which required a deliberate decision and conversations with stakeholders.

Table 1. FY20 Projections in Four School Districts

	District A	District B	District C	District D
Savings	**2.7%**	**3.4%**	**0.8%**	**0.9%**
Substitutes	0.7%	0.8%	0.0%	0.1%
Hourly Pay	0.3%	0.0%	0.1%	0.0%
Stipends and Overtime	0.2%	0.3%	0.2%	0.0%
Supplies and Equipment	0.3%	0.3%	0.2%	0.0%
Transportation	0.2%	0.7%	0.1%	0.2%
Contracts	0.4%	0.4%	0.0%	0.3%
Utilities	0.0%	0.3%	0.1%	0.3%
Hiring Freeze	0.2%	0.3%	N/A	N/A
School Site Carryover	0.3%	0.3%	0.2%	0.0%
New Expenditures	**-0.7%**	**-1.1%**	**-0.1%**	**-0.1%**
Food Service (Unreimbursed Meals)	-0.3%	-0.3%	0.0%	0.0%
Technology and Virtual Learning	-0.3%	-0.5%	0.0%	-0.1%
Other (Hazard Pay, Sanitation, etc.)	-0.2%	-0.3%	-0.1%	0.0%
Net Savings for SY19-20	**2.1%**	**2.3%**	**0.7%**	**0.9%**

Note: *This analysis focuses on areas of spend and save that potentially impact the budget by at least 0.1 percent or more. Smaller categories of savings — for example, travel for professional development — are not shown.*

New Expenditures

- **Technology and Virtual Learning:** In all four districts, many students lacked internet access and/or devices needed for virtual learning. For example, **District B** *(see Table 1 above)* spent \$11M (0.5 percent of their total operating budget) to purchase devices for nearly one-fourth of students. The district also paid workers overtime to support students and families with technology use and incurred costs related to printing and distributing physical learning materials. On the other hand, **District C** incurred minimal new costs related to virtual learning by repurposing existing devices and working with local partners to distribute WiFi hotspots. In general, school systems that didn't need to provide 1:1 technology and internet access for significant numbers of students likely had less incremental spending in this area.

- **Food Service:** After school closures occurred, many districts that serve high-need communities became meal centers for their students and the broader school community. Those extra meals are not currently reimbursable under federal policy. In the words of one district leader, “We’re feeding our city. We don’t check names; we don’t check for school-aged kids. We’re getting reimbursed for half and going over budget by about $5 million (0.25 percent of the budget).” In a public speech, the superintendent of LAUSD shared estimates that they would face $78 million in unreimbursed meals costs (1 percent of their SY19-20 budget).[3] **District C**, for example, received state waivers to serve meals to all school-aged children and worked with community providers to serve adult meals, so they did not incur additional food service costs. As with technology and virtual learning, districts that do not serve large populations of families needing nutritional support likely had less incremental spend in this area.

- **Other:** In addition to direct costs associated with virtual learning and meals, many school systems faced unplanned costs in hazard pay for front-line workers, sanitation equipment, and in the case of **District A**, vandalism incidents at closed school sites that are expected to result in a $1 million risk management loss. Some of these incremental costs were offset by savings within existing budgets — for example, using overtime savings to cover hazard pay, or applying supplies savings to PPE purchases. **Notwithstanding these offsets, the districts in our sample faced total new expenditures of up to 1 percent of their operating budgets.**

Savings

- **Substitute Pay:** Districts varied in their approach to substitute pay during school closures. **District A** stopped pay for all except long-term substitutes, and their savings on classified and certified substitutes accounted for almost one-third of net FY20 savings overall. **District C**, on the other hand, continued paying all subs based on the average rate that they had worked to date, while exploring ways to repurpose substitutes to support remote instructional needs.

- **Hourly Pay:** **District A** only paid for hourly workers whose work was still needed, and therefore captured the highest savings. **Districts C and D** prioritized “keeping employees whole” as much as possible and continued to pay hourly workers after school closures, regardless of whether they were still able to work. **District B** was required to continue paying hourly workers as a condition for maintaining the full amount of their FY20 state funding.

- **Stipends and Overtime:** Most districts were able to save marginally on stipends and overtime for work that was no longer needed, such as athletics coaching, event support, and summer school. In districts where stipends and overtime pay make up a smaller fraction of total employee compensation, the savings opportunities were more limited.

- **Supplies and Equipment:** **Districts A and C** were able to save between 0.2 percent and 0.3 percent of total operating expenses by implementing purchasing freezes shortly after schools closed and only making essential purchases. Systems that did not proactively freeze spending generally saw minimal savings in this area.

- **Transportation:** The most common savings in transportation came from fuel costs and supplies. **District C** continued to run buses to deliver meals, which partially offset savings gained from closing schools. In addition to savings on fuel, **District B** saved close to $9 million in public transportation passes, which boosted their total transportation savings.

- **Contracts:** Savings in this area largely depend on if districts could renegotiate the terms of their contracts. For example, **Districts A and B** proactively reviewed their largest contracts and only continued to pay vendors who could provide replacement services, such as social-emotional and mental health providers, and special education services.

- **Utilities:** In a typical year, utilities make up less than 3 percent of the average annual school district budget. In addition, not all costs for utilities are school-based and variable. So, although districts did save on utilities when schools closed, these savings amounted to less than 0.1% in the systems we spoke to. Most systems shut down school buildings entirely, but **District C** shared that they chose to keep some lights on to discourage vandalism and support a sense of calm in the community.

- **Hiring Freeze:** **Districts A and B** implemented hiring freezes shortly after school closures and were able to save between 0.2 percent and 0.3 percent on unfilled positions. **Districts C and D** did not implement official freezes but noted that hiring has naturally slowed down. Some district leaders have reflected that positions that have remained vacant without significant impact could potentially be eliminated as a cost containment lever for FY21.

- **School and Department Carryover:** **Districts A, B, and C** are examining opportunities to sweep back unspent dollars from school and central budgets — they estimate that they will be able to save between 0.2 percent and 0.3 percent by doing so. **District D** is allowing schools to *increase* their carryover and apply their savings toward school site budgets for FY21.

Next Steps

Next Steps for Districts

With a matter of weeks left in FY20, the remaining opportunities for savings are limited. If districts haven't already, they should consider "sweeping" unspent funds from school and department budgets as part of an end-of-year spending freeze. In addition, districts may seek to furlough staff for some number of remaining days this year as part of a strategy to extend the school day or year in SY20-21. In the words of a district leader in Portland, Oregon, where staff have been furloughed one day per week since May 8, "We believe that a day of in-person, on-campus instruction next year is more valuable and of the most value to our most underserved students through a racial equity social justice lens than a day of distance learning in this school year."[4] With the increased time over the summer to plan for a comprehensive reentry model, these funds can be used to support the delivery of more equitable, higher-quality instruction to students in the fall.

In addition, districts should ensure that their FY20 end-of-year forecast is incorporated into FY21 planning. Currently, many districts are developing budget scenarios to respond to a range of potential revenue forecasts. To the extent that districts have material surpluses or deficits in FY20, those amounts should be factored into FY21 scenarios.

Reflection questions for district leaders:

- What are the key areas of FY20 spend and save that you are projecting?
- What savings opportunities can you still act on for FY20? What is the opportunity cost of *not* capturing these savings?

Next Steps for States

States should plan for FY21 knowing that school systems will not have significant carryover from FY20 to address increased needs — and that districts that needed to invest more in technology and food services to serve their students and communities during the shutdown will have less savings. These districts not only faced the greatest costs of emergency response, but will continue to face greater challenges in supporting students through academic recovery and SY20-21 reentry. While federal funding from the CARES stimulus program may help offset short-term costs, the COVID-19 pandemic has exacerbated student need in these systems in ways that will require longer-term intervention and investment.

Reflection questions for state leaders:

- How do these findings inform your understanding of school systems' financial position as they enter SY20-21?
- How can you support districts to maximize FY20 savings right now? Are there opportunities that you can incentivize, or barriers to savings that you can help districts overcome?

Sources

[1] ***Note:*** "Operating budget" is defined as the annual budget for preK-12 operating expenditures, excluding schools and programs that are not district-operated (such as charter schools and special education outplacement) and district non-operating expenditures (such as capital expenditures).

[2] ERS comparative district database. Calculated as average percent of preK-12 operating expenditure that is base salary and benefits.

[3] Michael Burke. *LA Unified faces $200 million in unbudgeted costs to cope with pandemic.* EdSource, 2020. https://edsource.org/2020/la-unified-faces-200-million-in-unbudgeted-costs-to-cope-with-the-pandemic/629565?utm_source=EdSource&utm_medium=newsletter

[4] Elizabeth Miller. *Portland Public Schools Will be Monday-Thursday Through End of School Year.* Oregon Public Broadcasting, 2020. https://www.opb.org/news/article/oregon-portland-public-schools-monday-thursday-schedule-furlough/