

APRIL 2020

WHAT CHARTER SCHOOLS NEED TO KNOW COVID AND EDUCATION FINANCE: ACTING DURING THE IMPENDING FISCAL DOWNTURN

NATHAN BARRETT, PH.D., SENIOR DIRECTOR, RESEARCH AND EVALUATION

The COVID-19 pandemic has ushered in an unprecedented level of uncertainty in all aspects of life as most states and communities operate under stay-at-home directives. While stemming the spread of the coronavirus is paramount, these directives will have severe economic implications. It is in this context that schools, already facing the logistical challenges of quickly designing and implementing remote learning systems and ensuring meal services for their most vulnerable students, must look ahead to next year's budget. Although the Coronavirus Aid, Relief, and Economic Security (CARES) Act provides \$13.5 billion for an Elementary and Secondary School Emergency Relief Fund, it is focused on supporting expenditures related to COVID-19 and school closures. And while the CARES Act includes a provision for states receiving relief funds to hold school funding at current levels for the upcoming fiscal year, it also allows the provision to be waived by the U.S. Secretary of Education.

The uncertainty and impending fiscal challenges will require careful planning and execution. They will also require the ability to make thoughtful but quick course corrections should fiscal realities fail to meet projections. While all schools will be affected, charter schools are of interest because of their unique position in public education, the policies under which they operate, and the fact that they disproportionately serve students who are potentially at greater risk of disruptions because of the pandemic.

Charter schools typically face fewer bureaucratic constraints, but at the cost of increased accountability. As a result of that increased flexibility, they may be able to adapt quickly to the fiscal challenges. However, charter schools usually receive fewer dollars per pupil and may face more uncertainty than traditional schools since many receive funds that are generated through such volatile revenue streams as sales taxes. This is a result of various state funding formulas and the fact that 45 percent of charter schools are in urban areas that typically generate less revenue from property taxes and are thus more reliant on state revenue.

This brief focuses on the potential fiscal uncertainty that all schools, and charter schools in particular, will face. Although not an exhaustive account, it highlights various factors that may influence the fiscal standing of state and local governments and ultimately district and charter school budgets.

What Can We Learn from the Great Recession?

The circumstances around the impending economic downturn are unique, and the eventual effects uncertain. Still, we can leverage some of what we learned from the Great Recession that took place from December 2007 to June 2009. It took some time for the economic downturn to be reflected in school district budgets, but once in decline, it took the average budget several years to return to pre-recession levels. Although the delay is unlikely in the current economic climate, it is likely that the downturn will affect budgets for years to come, and schools should plan accordingly.

Not all district and school budgets were similarly affected by the Great Recession. This is important for identifying districts that may be more at risk of facing reduced funding and for understanding the effects of those budget cuts on the students they serve. A recent study shows that states that are more reliant on state tax revenue to fund education experienced larger education budget cuts than states that did not. More importantly, these cuts led to lower academic achievement and increased black-white test score gaps.¹

Other research, focused on New York, found that revenues and expenditures remained relatively stable through the beginning of the recession due to significant compositional changes to revenue—federal stimulus money supplanted state and local funds. As the stimulus money ran out toward the end of the recession, districts made deep cuts to their expenditures.² While it is not yet clear if additional coronavirus-related stimulus funding will be made available to districts, it is clear that states and schools should be proactive in the budget process so that sudden and large budget cuts are not necessary.

The Great Recession also saw delays in state payments to schools. Given the recent extension of the federal income tax filing date, it is plausible that delays could be more severe as states await state income tax returns. Most schools receive monthly payments from the state from which they then pay salaries and other encumbered expenses. Delays in these payments mean that schools must have enough cash on hand to cover expenses until they are later reimbursed or must borrow against receivables at high interest rates.

State Revenue and Expense Volatility and the Impact on School Budgets

States and localities will experience pandemic-related economic disruptions differently, and this will influence how much revenue they are able to generate and the expenses they incur. States that have more volatility in their tax revenue (Table 1) and states that rely on tourism and oil will be hardest hit.³ States that have higher unemployment claims, and states and localities that have seen the largest number of COVID-19 cases, will also incur greater expenses. The net effect on state budgets and how states are able to fund schools will depend on these factors as well as how they have stocked their rainy-day funds and their willingness to use them. Table 1 summarizes the number of days each state could run on their rainy-day reserves.⁴ New Mexico can cover about three months of expenses, while Pennsylvania could cover less than a day.

While all school budgets are in some way influenced by the overall economic health of the state in which they are located, they vary in their exposure to state revenue and expense volatility. Districts and schools that receive a disproportionate amount of the revenue from the state are likely to see higher revenue declines as a result of the economic downturn.⁵ Table 1 shows that the average public charter school receives 64.0 percent of their revenue from state sources, compared to 46.3 percent for traditional public schools. This suggests that, on average, charter schools are exposed to more volatility because of their reliance on state revenue. Charter schools are also more likely than traditional schools to be in urban areas, where the effects of the pandemic will be more pronounced.

The proportional differences in funding sources between charter schools and traditional schools is a result of varying funding formulas across states.⁶ In those states that allow different authorizing agencies, funding mechanisms can also vary between charter schools within a given state, based on a charter school's authorizer or whether it is part of a traditional LEA. For example, in Arkansas, conversion charter schools that are part of the traditional LEA have access to local revenue from property taxes, while open-enrollment charter schools that are their own LEA do not.

Another consideration for charter schools is that they receive fewer dollars per pupil than do traditional schools. Of the sample of states in Table 1, the average charter school receives 83 cents for every dollar the average traditional school receives. Charter schools also commit more of their total revenue (88.3 percent) to current expenditures than do traditional schools (83.7 percent). This is due in large part to the fact that charter schools don't always have access to public school facilities and must make rent or mortgage payments out of their operating budget.



School Level Budgeting

Despite the grim outlook for school budgets amid the current economic downturn, schools can begin to take steps now to mitigate potential disruptions. Charter schools are particularly well positioned because they are more autonomous, and for the most part, less constrained by state regulations and collective bargaining agreements (CBAs) that dictate budget requirements.

Research has shown that as the economy contracts, teachers have fewer labor market options, and teacher retention goes up.⁷ Even in cases where traditional districts enact a reduction in force (RIF) policy to address budget shortfalls, last-in first-out (LIFO) policies ensure that teachers are retained based on seniority. These policies, coupled with salary schedules, mean that returning teachers in traditional districts may receive raises even as budgets shrink, placing additional pressure on budgets. Most charter schools do not have RIF and LIFO policies nor salary schedules that dictate pay. Charter schools have also demonstrated that they can retain more effective teachers at higher rates than traditional schools.⁸ While laying off teachers and delaying pay increases are difficult decisions, the fiscal realities may make them necessary, and charter schools are positioned to make those decisions should the need arise.

Charter schools also have autonomy over additional factors often found in collective bargaining agreements. Restrictions on class sizes, course loads, extracurricular duties, and hours can be found in many CBAs, and they have implications for budgets. CBAs may also mandate other expenditures, such as for support personnel and extended professional development provisions. While many of these factors can be related to the learning environment, charter school leaders can determine what works best for their schools and make budgetary adjustments where it makes sense. This autonomy will be even more important as reopening schools may need to shift expenditures to meet the changing needs of their students.

Legacy costs associated with pensions systems are a significant cost for most traditional districts. In some states, districts that directly fund pension contributions are obligated to fund more than 30 cents for every dollar of salary.⁹ Nineteen states allow charter schools to opt out of the state pension plan. While the initial cost savings is obvious, since opting out means that charter schools fund match rates of three to seven percent of teacher contributions, charter schools may need to also consider temporary reductions in contribution match rates or increases in vesting periods.

Unique to the current crisis is the unprecedented closure of schools. Since school funding is dependent upon student attendance, the implications for current school budgets are obvious. However, many states have already committed to providing funding through the end of the year. While many schools are transitioning to remote learning, it is important for schools to assess how costs can be reduced now. Many states allow schools to carry an unreserved fund balance or rainy-day fund for the purpose of addressing unexpected budget disruptions so cost savings now can be carried over to next year to help mitigate revenue shortfalls.

Conclusion

Though we still don't know the extent to which school budgets will be affected by the pandemic-related economic downturn, there is little doubt that the current crisis will affect school budgets for years to come. However, there are steps that states and charter school leaders can take to soften the blow of the downturn and to prepare for leaner times.

How can states protect schools?

States should be mindful of how all public schools will be affected with an explicit focus on our most vulnerable students.

- 1. Make equitable funding cuts:** In the interest of equitable funding, states should be aware of possible disproportionate effects of funding cuts. Where possible, states should adjust funding cuts relative to the proportion of total funding that schools receive from the state. Schools that receive proportionally more state funding should experience a smaller percentage decrease.
- 2. Ensure timely allocations to school:** States should be attentive in making on-time payments to schools. If the state cannot, schools should maintain enough cash on hand to cover payroll expenses for at least one month.
- 3. Hold revenue sharing provisions fixed:** Traditional districts often share local revenue with charter schools. They are typically structured such that the charter school will receive a set percentage of local revenue based on how many students they enroll. States should ensure that these revenue sharing provisions remain fixed if the traditional district has the ability to alter the percentages.
- 4. Prepare for when federal stimulus money runs out:** Although a longer-term federal stimulus plan remains to be enacted, states should be proactive in the budget process so that sudden and large budget cuts are not necessary if and when stimulus money can no longer sustain current allocations to schools.

What should charter school operators consider?

At the school level, charter school leaders should begin to proactively plan for revenue decreases and determine how best to serve their students while managing fiscal uncertainty. Most charter schools have significant autonomy over personnel policies and practices. While there are some best practices to consider, there is no one-size-fits-all solution, and charter school leaders should consider ways they can make cuts that will work best for their school.

- 1. Know the financial footing of your state and locality:** Make sure you are up to speed on how funding formulas may have differential effects on charter school budgets in your state. Are you in a state with lower revenue volatility or a significant rainy-day fund? Is your state facing a significant teacher pension shortfall? How will trends in local property values impact you in the coming year?
- 2. Access all available funding streams:** Make sure you know your student demographics and the funding to which your school is entitled. If you have declined federal program participation in the past, now might be the time to reconsider programs such as federal child nutrition programs, Title I, and the Student Support and Academic Enrichment block grant (Title IVA).
- 3. Start cost-cutting process now:** Even if per pupil revenue remains relatively stable in the near term, you should plan for possible longer-term funding decreases by cutting costs now and funding reserve balances. Now is the time to closely examine expenses such as support personnel, professional development, class size, course load, the length of the school day, and participation in state pension plans. You should determine what works best for your school and make budgetary adjustments where they makes sense.
- 4. Plan for budget flexibility to address shifts in expenditures:** We have yet to fully understand what the needs of students will be as they return to school. You should build as much flexibility into your budget as possible to cover costs associated with supporting mental health needs for both students and staff, possible social-distancing guidelines within the school, additional staff for cleaning and sanitizing, as well as any additional academic supports necessary to address learning losses.

TABLE 1: FISCAL INDICATORS OF STATES WITH CHARTER DISTRICTS

STATE	VOLATILITY	DAYS OF RAINY-DAY FUND	TOTAL REVENUE PER PUPIL		SHARE OF REVENUE FROM STATE		CURRENT EXPENDITURES PER PUPIL	
			CHARTER	TRADITIONAL	CHARTER	TRADITIONAL	CHARTER	TRADITIONAL
AR	3.7	9.9	\$9,860	\$11,180	75.8%	52.4%	\$9,026	\$9,863
AZ	8.1	25.0	\$9,411	\$14,040	78.7%	35.6%	\$8,684	\$12,359
CO	8.4	32.4	\$9,103	\$15,443	82.7%	47.9%	\$7,910	\$12,210
CT	7.0	47.4	\$14,363	\$23,557	74.7%	31.5%	\$14,323	\$20,394
DC	N/A	N/A	\$26,778	\$31,382	0.0%	0.0%	\$22,826	\$21,974
DE	6.9	20.0	\$13,000	\$18,251	56.2%	61.6%	\$13,517	\$14,636
GA	5.7	36.7	\$10,406	\$11,831	78.8%	50.2%	\$8,673	\$10,573
ID	6.3	36.9	\$7,978	\$11,426	83.4%	67.8%	\$6,893	\$10,003
IN	4.5	32.2	\$9,976	\$12,738	77.2%	63.2%	\$8,174	\$9,902
LA	7.4	15.1	\$12,672	\$14,204	41.0%	52.1%	\$12,182	\$13,080
MA	6.8	30.9	\$19,527	\$20,770	8.4%	33.1%	\$15,738	\$17,090
ME	4.9	30.4	\$12,679	\$17,680	83.3%	29.3%	\$11,068	\$14,975
MI	3.8	40.2	\$10,028	\$13,057	82.5%	53.1%	\$9,419	\$11,025
MN	6.1	39.0	\$15,280	\$14,486	86.7%	67.9%	\$13,105	\$11,693
MO	4.1	24.9	\$14,423	\$12,261	67.3%	38.5%	\$12,902	\$10,399
NC	5.0	19.3	\$9,528	\$10,320	60.5%	64.3%	\$8,441	\$9,823
NJ	5.6	3.9	\$16,040	\$23,593	8.9%	30.6%	\$15,287	\$19,447
NM	8.4	90.1	\$11,592	\$17,658	83.6%	70.2%	\$10,463	\$15,255
NV	5.8	27.3	\$7,569	\$17,494	95.6%	40.2%	\$7,213	\$15,160
OH	4.3	29.4	\$11,387	\$14,087	80.7%	43.3%	\$11,075	\$11,304
OK	7.1	41.9	\$7,888	\$10,293	70.7%	47.0%	\$7,651	\$9,193
OR	6.2	46.2	\$18,161	\$18,703	70.0%	64.1%	\$15,964	\$15,136
PA	3.7	0.3	\$14,927	\$18,517	1.2%	43.4%	\$13,748	\$14,647
RI	4.4	19.0	\$22,740	\$20,013	55.6%	30.0%	\$19,852	\$17,487
SC	5.4	23.8	\$18,050	\$13,156	89.7%	52.3%	\$7,744	\$11,377
TX	5.9	70.4	\$10,213	\$14,247	84.7%	39.2%	\$8,943	\$10,640
UT	6.5	33.6	\$7,768	\$11,122	84.4%	48.6%	\$6,379	\$9,001
WI	4.0	13.2	\$16,351	\$15,660	30.8%	39.4%	\$13,842	\$12,589

Notes: N/A designates that the data were not available. Table includes only states where charter schools operate as their own LEA and report fiscal data. Volatility and days of rainy-day fund are from <https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2014/fiscal-50#ind4>. The average state volatility for the U.S. is 5.0. Revenue and expenditure data are from author's calculations using the National Public Education Financial Survey Data 2017.

ENDNOTES

- 1 Jackson, C. K., Wigger, C., & Xiong, H. (2018). Do school spending cuts matter? Evidence from the Great Recession (No. w24203). National Bureau of Economic Research.
- 2 Chakrabarti, R., & Livingston, M. (2019). The Long Road to Recovery: New York Schools in the Aftermath of the Great Recession. *EPR*, 25(1), 1.
- 3 [https://cache.webcasts.com/content/read001/1294001/content/2a3c912ec1aea8fe1f8f4b8a7649d8746f713afd/pdf/COVID19_Webinars_fiscal_and_economic_issues_final_\(002\).pdf](https://cache.webcasts.com/content/read001/1294001/content/2a3c912ec1aea8fe1f8f4b8a7649d8746f713afd/pdf/COVID19_Webinars_fiscal_and_economic_issues_final_(002).pdf)
- 4 Table 1 includes only states where charter school finance data was available.
- 5 Jackson, C. K., Wigger, C., & Xiong, H. (2018).
- 6 <http://ecs.force.com/mbdata/mbquestNB2C?rep=CS1716>
- 7 Ingersoll, R., Merrill, L., & Stuckey, D. (2018). The changing face of teaching. *Educational Leadership*, 75(8), 44.
- 8 <https://www.reachcentered.org/publications/do-charter-schools-keep-their-best-teachers-and-improve-quality-retention-and-rewards-for-teachers-in-new-orleans>
- 9 <https://www.pewtrusts.org/-/media/assets/2019/06/statepensionfundinggap.pdf>

