PUBLIC SECTOR SERVICES

IMPACT OF COVID-19 ON STATE K–12 FUNDING

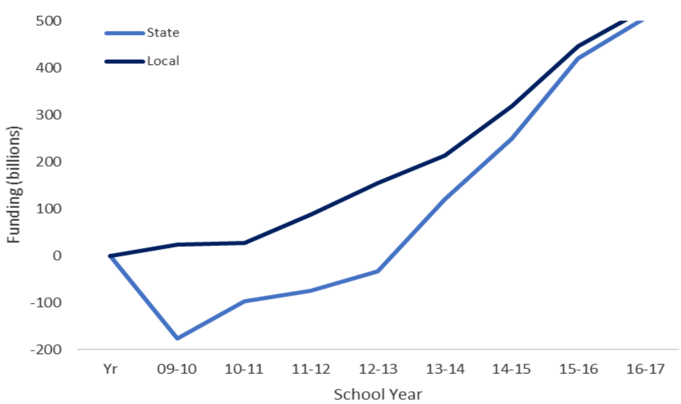
Lessons from the Great Recession

K-12 schools focused on providing distance learning to students must now turn their attention to navigating the substantial financial challenges brought on by the COVID-19 pandemic. With state budget projections in flux, the global and financial meltdown of the late 2000s (the Great Recession) presents valuable insights into downstream funding impacts that public school districts will have to manage.

1. State and local education funding will fall

During the years immediately following the Great Recession, roughly two-thirds of states were forced to cut their budgets due to decreases in tax revenue, thus stagnating school funding.[1]

Change in Funding Compared to 2008



As states are hit by higher public health costs and lower sales and income tax revenues, K-12 institutions can expect – and should prepare for – similarly reduced state funding.

Local funding will take a hit, too, perhaps even more severely than during the Great Recession. Currently, 40-50% of school district revenues come from local sources that are expected to "drop precipitously in the months ahead", according to the non-profit Council of the Great City Schools.[2]

2. The economic recession will affect school districts unevenly, particularly high-poverty schools in states with poor fiscal positions

The impact of the recession will be felt most strongly by poorer schools that are more reliant on state funding. These schools will have to make difficult decisions about teacher and program cuts, especially if they reside in states without adequate reserves. This downward pressure on school budgets has precedence, for a study out of Northwestern University found that **"poor schools that depended heavily on state revenue faced the largest budget cuts" during the last recession**.[3]

K-12 schools experiencing fiscal pressures will find little solace in existing guidance from the federal government. According to provisions outlined in the March 2020 CARES Act, states can now cut back on education spending "for the purpose of relieving fiscal burdens on states that have experienced a precipitous decline in financial resources" – putting struggling schools further at risk for financial distress.[4]

3. Federal stimulus may partially mitigate school struggles – but the scope of assistance is undetermined

At this time, additional federal help is likely, but the scope of aid is not expected to fully mitigate funding shortfalls. On May 15th, House Democrats passed a second $3 trillion relief bill (208-199) to allocate **$58 billion** for K-12 education. This bill does not have Senate support and is therefore unlikely to become law, but education lobbyists have begun making their case around the numbers in the bill, and state actors should keep watch. This follows the **$13.5 billion** for K-12 education from the CARES Act.

Citations

1. Ujifusa, Andrew. "How Another Recession Could Test K-12's Resilience." How Another Recession Could Test K-12's Resilience, Education Week, 23 Aug. 2019, www.edweek.org/ew/articles/2019/08/28/how-another-recession-could-test-k-12s-resilience.html.
2. Strauss, Valerie. "K-12 School Leaders Warn of 'Disaster' from Huge Coronavirus-Related Budget Cuts as Layoffs and Furloughs Begin." The Washington Post, WP Company, 8 May 2020, www.washingtonpost.com education/2020/05/08/k-12-school-leaders-warn-disaster-huge-coronavirus-related-budget-cuts-layoffs-furloughs-begin/.
3. The Economist Newspaper. (2019, June 6). What budget cuts during the Great Recession did to pupils' test scores. Retrieved from https://www.economist.com/united-states/2019/06/06/what-budget-cuts-during-the-great-recession-did-to-pupils-test-scores
4. CARES Act, H.R. 748, 116th Congress. (2020).

The Roadmap from the Great Recession

In the absence of – and even after receiving – federal assistance, district administrators employed a variety of measures to address the budget deficits brought on by the Great Recession. These actions, some of which are listed below, will be important once again in this current crisis.

Reduce non-academic auxiliary learning programs and personnel	Defer purchases and facilities maintenance	Pursue new revenue opportunities such as P3 bond offerings and real estate leasing	Modify or fully transform student funding models
Redistribute the costs of school activities between schools and families	Scrutinize all contracts and expenses to identify cost-saving opportunities	Reallocate federal, state, and local revenue to essential budget items like facilities and teacher pay.	Close and consolidate schools

A Broad Strategy

Schools today are almost singularly focused on operationalizing distance learning, but district administrators need to prepare for other problems to come. The uncertain duration and intensity of the COVID-19 crisis make this one of the most unpredictable events in economic history. Appropriate planning and response measures must be customized for each school district and its students.

1. **Dedicate a team focused on ensuring fiscal sustainability planning for the 2020-21 school year.** Use dynamic forecasting tools to model different financial scenarios and inform key decisions. Forecasting tools should assess the impact of scenarios around declines in local and state revenues. Refresh scenarios based on shifting circumstances.

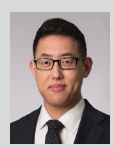
2. **Quickly re-assess your strategic priorities**. Leverage past strategic planning exercises and reset them in the context of COVID-19. Assess how student learning has been impacted by the pandemic and what additional investments will be required.

3. **Develop an action plan for each financial scenario that supports strategic priorities, while ensuring the fiscal sustainability of the budget**. The action plan for each scenario should identify cost savings, eliminate waste and inefficiencies in spending, and identify ways to better align resources (time, people and money) to support student achievement.

FOR MORE INFORMATION, CONTACT:

Erin Covington
Managing Director
(202) 729-2116
ecovington@alvarezandmarsal.com

Ingrid Gardiner
Senior Director
(202) 729-2113
ichristian@alvarezandmarsal.com



Ozzie Chung
Senior Consultant
(909) 706-9116
ochung@alvarezandmarsal.com

ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) when conventional approaches are not enough to make change and achieve results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services.

With over 4,000+ people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, help organizations transform operations, catapult growth and accelerate results through decisive action. Comprised of experienced operators, world-class consultants, former regulators and industry authorities, A&M leverages its restructuring heritage to turn change into a strategic business asset, manage risk and unlock value at every stage of growth.

When action matters, find us at: **AlvarezandMarsal.com**

Follow us on:

ALVAREZ & MARSAL