

Fiscal Health of School Districts in the Pandemic

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KEY POINTS

- Pennsylvania school officials are **projecting** local tax revenue losses for the current year due to the wreckage from COVID-19 restrictions.
- Schools entered the pandemic with robust reserves of \$4.59 billion and received nearly \$575 million in CARES and \$1.88 billion in CRRSA funding from the federal government.
- Overall, school districts are well funded to overcome the challenges of this academic year. Even if the worst-case scenario of local tax revenue loss and PPE costs comes to fruition, school districts will have an excess of \$5.11 billion.
- Under the worst-case scenario of tax loss, 8 out of 500 districts (1.6%) will face budget gaps. All but one of these districts had systemic financial issues before the pandemic.

PASBO ESTIMATES FOR LOCAL REVENUE LOSS

The Pennsylvania Association of School Business Officials (PASBO) **projected** total local revenue loss for each school district in 2020–21.¹ PASBO has two sets of calculations that start with different assumptions about how quickly Pennsylvania's COVID-19 economy recovers.

- The first assumes economic recovery spans one or two years and estimates \$1.04 billion in local revenue loss.
- The second assumes a quick economic recovery and estimates a \$870 million loss.

PASBO's projections of the local revenue losses school districts will experience are likely exaggerated. For example, PASBO's projections of lost tax revenue are higher than the estimates by the [Independent Fiscal Office](#) (IFO). A February 2021 [IFO report projects](#) a 1.5% reduction in 2020–21 property tax collections due to the pandemic, which is even lower than the 1.9% decline the IFO [projected in July 2020](#).² In contrast, [PASBO's](#) worst-case assumption projects a 2.25% reduction in property tax collection.

While PASBO's projections seem out of touch with current collection forecasts, this analysis will show that even under PASBO's worst assumption about revenue loss, the funding gap from that loss will be closed by federal dollars and school districts' rainy-day reserves.

SCHOOL DISTRICTS RECEIVED EXTRA FEDERAL FUNDS

Through the Federal Coronavirus Aid, Relief, and Economic Security (CARES) Act and Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA), Pennsylvania public schools received

Elementary and Secondary School Emergency Relief (ESSER) I & II, School Health and Safety grants, and the Governor’s Emergency Education Relief (GEER) funds for addressing COVID-19 expenses.

- [Per federal guidance](#), the Pennsylvania Department of Education (PDE) [allocated \\$400,119,695](#) of ESSER I funds to district schools. A small percentage of the school districts’ funds is for providing equitable services to nonpublic schools.³
- Pennsylvania also designated \$150 million of CARES Act money to [School Health and Safety grants](#) that went to schools for cleaning and sanitation products, personal protective equipment, thermometers, distance learning technology, and other COVID-19 response efforts.⁴ Almost \$125 million of the \$150 million was available to districts that apply. The rest of the funds were designated for career and technical schools, intermediate units, and charter schools. The final distribution of School Health and Safety grants is currently not available online, so this analysis assumes that districts applied for the full amount they were eligible for.
- In November 2020, the Pennsylvania Commission on Crime and Delinquency (PCCD) announced another \$49.8 million [in School Health and Safety grants](#) for the 2020-21 school year.⁵ The grants are supported by federal ESSER funding.
- [Governor Tom Wolf](#) has allocated over \$102 million in GEER funds to schools for connectivity services, special education, targeted support, equity, career and technical education, and preschool programs.⁶ Because the distribution of these GEER funds is not currently published online, the \$102 million will not be factored into this report’s calculations.
- In January 2021, PDE posted [preliminary allocations](#) of the \$2.22 billion ESSER II funds for Pennsylvania.⁷ School districts were collectively given \$1.88 billion. Since the final distribution of ESSER II funds is not available, this analysis assumes that each school district will receive the preliminary allocation.

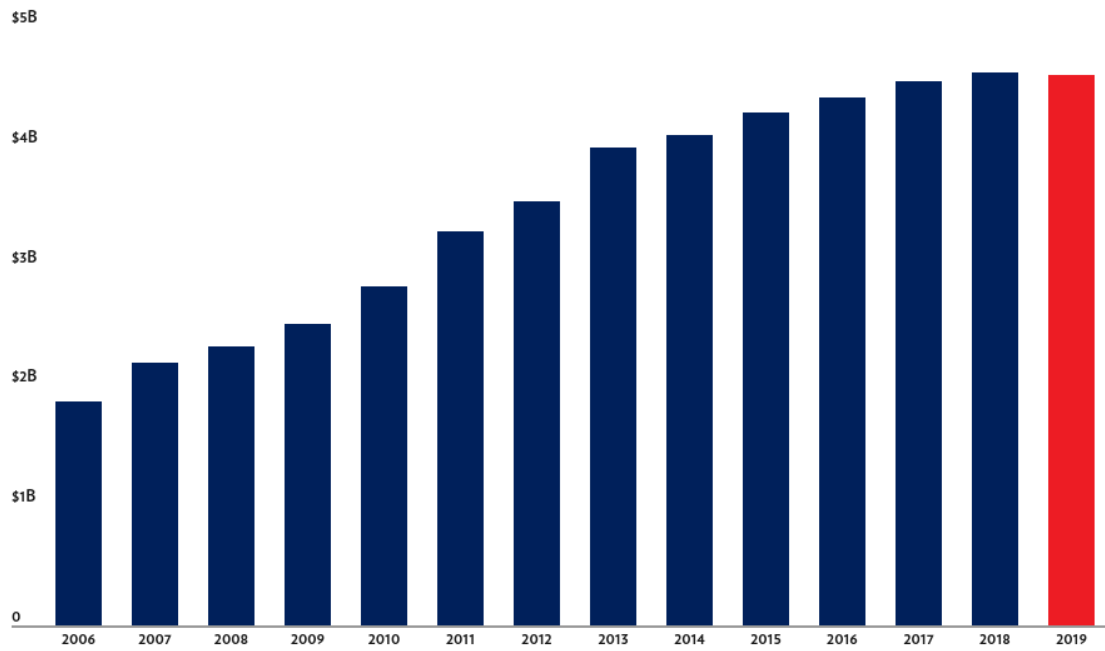
SCHOOL RESERVES IN 2019 REACHED ALL-TIME HIGHS

While COVID-19 will reduce tax revenue, school districts have been stockpiling cash to weather an economic downturn. According to the most recent data, Pennsylvania school districts entered the pandemic with over \$4.5 billion in [reserve funds](#).⁸ These rainy-day funds have risen over the last 14 years, increasing 145% since 2006.

- In 2006, Pennsylvania school districts had \$1.87 billion in reserve funds.
- As of 2018–19, Pennsylvania’s 500 school districts have a combined total of \$4.59 billion in reserve funds.
- The state’s previous [Auditor General](#) recommended that reserve funds be no more than 20% of the school district’s total spending.⁹ Remarkably, almost half of Pennsylvania school districts—222 out of the 500 districts—have reserve funds that exceed 20% of their spending.

Pennsylvania School District Reserves

School district reserves funds have risen over the past 14 years, reaching **\$4.59 billion** in 2019.



SOURCE: Pennsylvania Department of Education, Detailed Annual Financial Reports, "General Fund Balance 1996-97 to 2018-2019." General Fund Balance includes Assigned, Committed, and Unassigned funds.

If CARES Act, CRRSA Act, and all reserve funds are accounted for, school districts collectively have an excess of \$6 billion, even after PASBO's worst-case scenario of local revenue loss.

While most school districts have enough rainy-day funds to cover pandemic-related losses, a few districts will have negative balances after PASBO's highest projection of local revenue loss.

- 8 school districts will have a negative balance after accounting for local tax revenue loss, CARES Act funding, CRRSA Act funding, and general reserve funds.¹⁰
- 7 of these districts were already facing negative or zero reserve balances in 2018–19, indicating long-term financial issues that predated the pandemic.

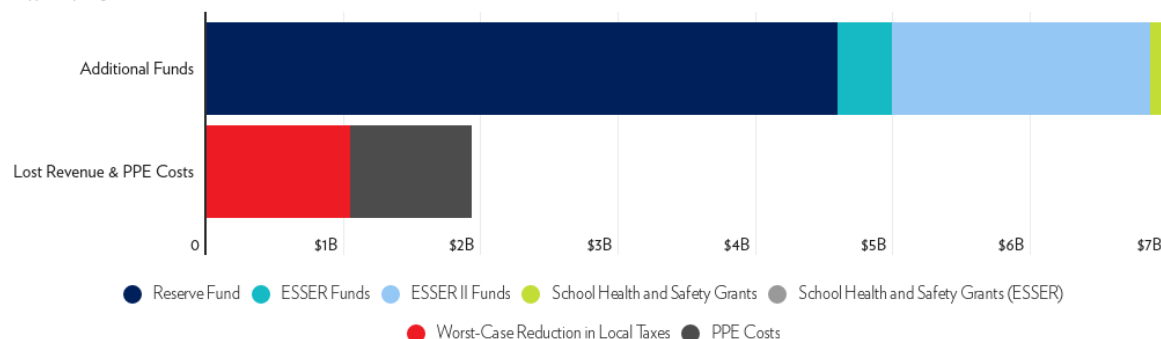
Note that school districts' general reserves are made up of assigned, unassigned, and committed funds. While assigned funds may be intended for capital improvements, the reserve funds are fungible and can be repurposed by the school district.

- 17 school districts face budget gaps after local tax revenue loss, CARES Act, and CRRSA Act funding if accounting for unassigned reserve funds only.

See the appendix for a full list of the remaining reserve funds by school district.

Federal Dollars & Reserves Close School District Funding Gap

Additional funds to school districts from the CARES Act, CRRSA, and reserve funds dwarf the worst case scenario of lost of local revenue due to COVID-19. The worst case uses PASBO's projections, which are several times what the Independent Fiscal Office projects.



Sources: Pa. Department of Education, Detailed AFR Data, General Fund Balance 2018-19, <https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Finances/AFR%20Data%20Summary/Pages/AFR-Data-Detailed-.aspx#.VZwC6mXD-Uk>;
 Pa. Department of Education, ESSER LEA Allocations, <https://www.education.pa.gov/Schools/safeschools/emergencyplanning/COVID-19/CARESAct/Pages/Allocations.aspx>;
 Pa. Department of Education, ESSER II Funds, <https://www.education.pa.gov/Schools/safeschools/emergencyplanning/COVID-19/CARESAct/January2021/Pages/default.aspx>;
 Pa. Commission on Crime and Delinquency, COVID-19 School Health and Safety Grants FY 2020/21 - For Public School Entities, <https://www.pccd.pa.gov/schoolsafety/Pages/COVID-19-Public-School-Grants.aspx>;
 Pa. Commission on Crime and Delinquency, ESSER School Health and Safety Grants FY20-21, <https://www.pccd.pa.gov/schoolsafety/Pages/ESSER-School-Health-and-Safety-Grants-FY20-21.aspx>;
 PASBO, "PASBO Estimates School Districts Could Experience \$1 Billion Loss in Local Revenue in 2020-21," https://www.pasbo.org/blog_home.asp?Display=122; and
 AASA and ASBO International, "What Will it Cost to Reopen Schools?", <https://www.asbointl.org/asbo/media/documents/Resources/covid/COVID-19-Costs-to-Reopen-Schools.pdf>

New link: <https://infogram.com/1p2nej1z53100s061q9qqzk2srp9k3vjm?live>

SCHOOL PPE COSTS

While the focus of this report has been on the loss of local revenue, public schools that open to in-person or hybrid instruction incur additional costs due to new masking, sanitation, and social distancing requirements. These costs are not included in the appendix because PDE has not released estimates for how much school districts will spend on personal protective equipment (PPE). Furthermore, many public schools have still not opened for in-person instruction and will therefore not need the same level of supplies.

The School Superintendents Association (AASA) and Association of School Business Officials International does provide a national [estimate](#) of expenses an average district may incur due to reopening under COVID-19 guidelines.¹¹

- The average district in the nation is projected to spend \$1,778,139 on COVID-19 expenses.¹²
- With the assumption that all 500 districts reopen for in-person instruction, Pennsylvania public schools will incur a total of \$889 million in COVID-19 expenses.¹³
- If CARES Act, CRRSA Act, and all general reserve funds are accounted for, school districts will collectively have an excess of \$5.11 billion after incurring PASBO's worst-case scenario of local revenue loss *and* expenses for COVID-19 supplies.

- Only 27 school districts will have negative balances after incurring local revenue loss and the costs of COVID-19 supplies. In other words, 95% of school districts will have enough funds to cover PPE costs.

CHARTER SCHOOL COSTS

PASBO predicts that charter school tuition costs will increase \$475 million for school districts in 2020–21. This increase in costs comes because of an increase in charter school enrollment.¹⁴ Since district schools struggled to provide instruction when the pandemic shut down in-person teaching, over 24,000 students switched to charter schools.¹⁵ In Pennsylvania, some education dollars “follow the child” to certain public schools. When a student enrolls in a public charter school, a portion of their per pupil funding is directed to the charter school.

- If CARES Act, CRRSA Act, and all general reserve funds are accounted for, school districts will collectively have an excess of \$4.64 billion after incurring PASBO’s worst-case scenario of local revenue loss, expenses for COVID-19 supplies, and charter school tuition transfers. PASBO currently does not provide a district-by-district breakdown of charter school costs, so this report only examines the collective impact on Pennsylvania school districts.

CONCLUSION

Due to COVID-19 restrictions on the economy, local school district revenue is projected to take a hit. However, in most districts, burgeoning reserves and federal funds can overcome local revenue shortfalls. Instead of calling for tax increases on Pennsylvanians who are experiencing their own economic hardships, schools should utilize their rainy-day funds and federal aid to safely educate Pennsylvania’s children.

APPENDIX

School District Reserves After Local Tax Loss: <https://infogram.com/revised-2021-school-district-reserves-after-local-tax-loss-1h7v4pwdkgn0j6k?live>

¹ PASBO’s projections consider each school district’s Annual Financial Report, property taxes, earned income taxes, real estate transfer taxes, delinquent taxes, interim revenue, and investment earnings. See PASBO, “Local Revenue Impact Estimate Methodology,” <https://www.pasbo.org/Files/PASBO%20Local%20Revenue%20Projection%20Methodology.pdf>.

² Independent Fiscal Office, School District Property Tax Forecast, February 2021, <http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/2021-SD-Property-Tax-Forecast.pdf>; and Independent Fiscal Office, COVID-19 Impact on Local Revenues, July 2020, <http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/RB-2020-COVID-19%20Local%20Revenue%20Impact.pdf>.

³ Pa. Department of Education, ESSER I LEA Allocations, <https://www.education.pa.gov/Schools/safeschools/emergencyplanning/COVID-19/CARESAct/May2020/Pages/Allocations.aspx>.

⁴ Pa. Commission on Crime and Delinquency, COVID-19 School Health and Safety Grants FY20-21 – for Public School Entities, <https://www.pccd.pa.gov/schoolsafety/Pages/COVID-19-Public-School-Grants.aspx>.

⁵ Pa. Commission on Crime and Delinquency, ESSER School Health and Safety Grants FY20-21, <https://www.pccd.pa.gov/schoolsafety/Pages/ESSER-School-Health-and-Safety-Grants-FY20-21.aspx>.

⁶ “Gov. Wolf Dedicates \$15 Million to Connect Students to High-Speed Internet, Remote-Learning,” <https://www.governor.pa.gov/newsroom/gov-wolf-dedicates-15-million-to-connect-students-to-high-speed-internet-remote-learning>.

⁷ Pa. Department of Education, ESSER II Funds, <https://www.education.pa.gov/Schools/safeschools/emergencyplanning/COVID-19/CARESAct/January2021/Pages/default.aspx>.

⁸ Pa. Department of Education, AFR Data: Detailed, General Fund Balance 2009–10 to 2018–19, <https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Finances/AFR%20Data%20Summary/Pages/AFR-Data-Detailed-.aspx#.VZwC6mXD-Uk>.

⁹ Jan Murphy, “School districts reserve funds continue to grow, amassing \$4.3 billion in 2014-15,” https://www.pennlive.com/politics/2016/06/school_districts_reserve_funds.html.

¹⁰ The 8 districts that will have negative balances are Abington, Bethlehem-Center, Chartiers Valley, East Allegheny, Penn Hills, Scranton, Sto-Rox, and Valley View. Only Chartiers Valley school district did not have a negative or zero reserve fund balance before the pandemic.

¹¹ Association of School Business Officials International and The School Superintendents Association, “What Will It Cost to Reopen Schools?” <https://www.goferr.nh.gov/sites/g/files/ehbemt366/files/inline-documents/sonh/20200826-19-costs-reopen.pdf>.

¹² The estimate includes costs associated with adhering to cleaning and disinfecting protocols, hiring staff to implement health and safety protocols, providing personal protective equipment, and providing transportation at 25% capacity.

¹³ The estimate assumes that the average school district has 3,659 students, 8 school buildings, 183 classrooms, 329 staff members, and 40 school buses.

¹⁴ Pa. Association of School Business Officials, “PASBO Predicts Charter School Tuition Will Increase By \$475 Million in 2020-21,” October 2020, https://www.pasbo.org/blog_home.asp?display=123.

¹⁵ Ibid.