School District Budget Report:
The COVID Impact

January 2021

PASBO
Pennsylvania Association of School Business Officials

Pennsylvania Association of Rural and Small Schools

PASA
Pennsylvania Association of School Administrators
Proud Leadership for Pennsylvania Schools

Introduction

School districts across Pennsylvania are experiencing a transformational moment for education. A global pandemic disrupted the 2019-20 school year and has upended the status quo in terms of instruction, budgets, staffing and everything in-between.

The status quo is gone, and school districts have spent the past ten months adapting, pivoting and evolving in an unprecedented and ever-changing environment that is likely to continue for the duration of the 2020-21 school year—at least.

To better understand the challenges school districts are experiencing and the extent of the impact of the COVID-19 pandemic, the PA Association of School Business Officials (PASBO), the PA Association of School Administrators (PASA) and the PA Association of Rural and Small Schools (PARSS) conducted a survey of school district business managers and superintendents.

In the fall of 2020, we conducted two separate surveys. The first was for school district business managers to assess the overall financial health of school districts at the end of the 2019-20 fiscal year and to identify areas of ongoing financial stress in the current year and looking ahead. The second survey was for school district superintendents to assess the challenges they are experiencing this current year and what they anticipate will be their biggest challenges next year.

In addition to the survey data, which was collected in November and December 2020, we also collected the 2019-20 school district Annual Financial Reports (AFRs) from the survey respondents to provide a look at actual results. Further, to provide a wider lens, we utilized all school district 2018-19 AFR data as well as all district 2020-21 PDE budget submissions to inform our report.

Examining all of this data together creates a comprehensive but very complicated picture of the impact of the pandemic on school districts and illustrates three important messages.

First, all school districts are negatively impacted by the COVID-19 pandemic, and there is an overarching uniformity in the manifestation of the impact on everything from educational programming to revenues to costs to staffing to never anticipated new needs. There is tremendous district diversity, however, in the manner and scope of the COVID impact.

Some school districts have experienced serious revenue declines, while others have seen expenditures sky-rocket—and for very different reasons. While no two school districts are responding to and experiencing the pandemic in the same way, all are affected.

Second, the effects of the pandemic on school districts are not over. With the end of the 2019-20 school year impacted by school closure and the current school year continuing to bear the brunt of the pandemic, we're not out of the woods. The financial challenges—both on the revenue and expenditure side—will continue into the 2021-22 school year, making the COVID-19 pandemic at least a three-year event and heightening the need for constant attention to this evolving situation. Trillions in federal stimulus funds flowing across the country to schools, employers and households mitigate the immediate future, but all eyes need to be wary for when that flow stops.

Third, and finally, school districts need resources. Many school districts are struggling. Rising mandated costs stressed school districts budgets every year before the pandemic, and in 2020-21, those rising mandated costs plus a host of pandemic-related expenditures are challenging many school district budgets—especially at a time where state and local revenue growth is minimal at best.

This report highlights the resilience and innovation of school districts during a historical and unprecedented time in our country. It also illustrates the fact that additional resources were needed to continuously adapt to the changing landscape to educate students and keep students and staff safe during a pandemic. In many cases the actions required were extreme and over time will not be sustainable for many. More focus on k-12 education and school district needs, both in this current school year and looking forward, is critical as this pandemic and its effect on education will be felt for years to come

Part I: The 2019-20 COVID-19 Impact

The start of the 2019-20 school year was not unlike any other, and the challenges school districts were facing were driven by continued growth in mandated costs—particularly those for charter school tuition, special education and pension expenditures. School districts were continuing to focus on school safety and security, and many districts were examining ways to hire additional school social workers, school counselors and school psychologists to support students.

On March 13, 2020, however, the normalcy of the 2019-20 school year came to a dramatic stop, as Governor Wolf announced a school closure that ended up lasting for the remainder of the school year. Immediately, the world of k-12 education was thrown into chaos.

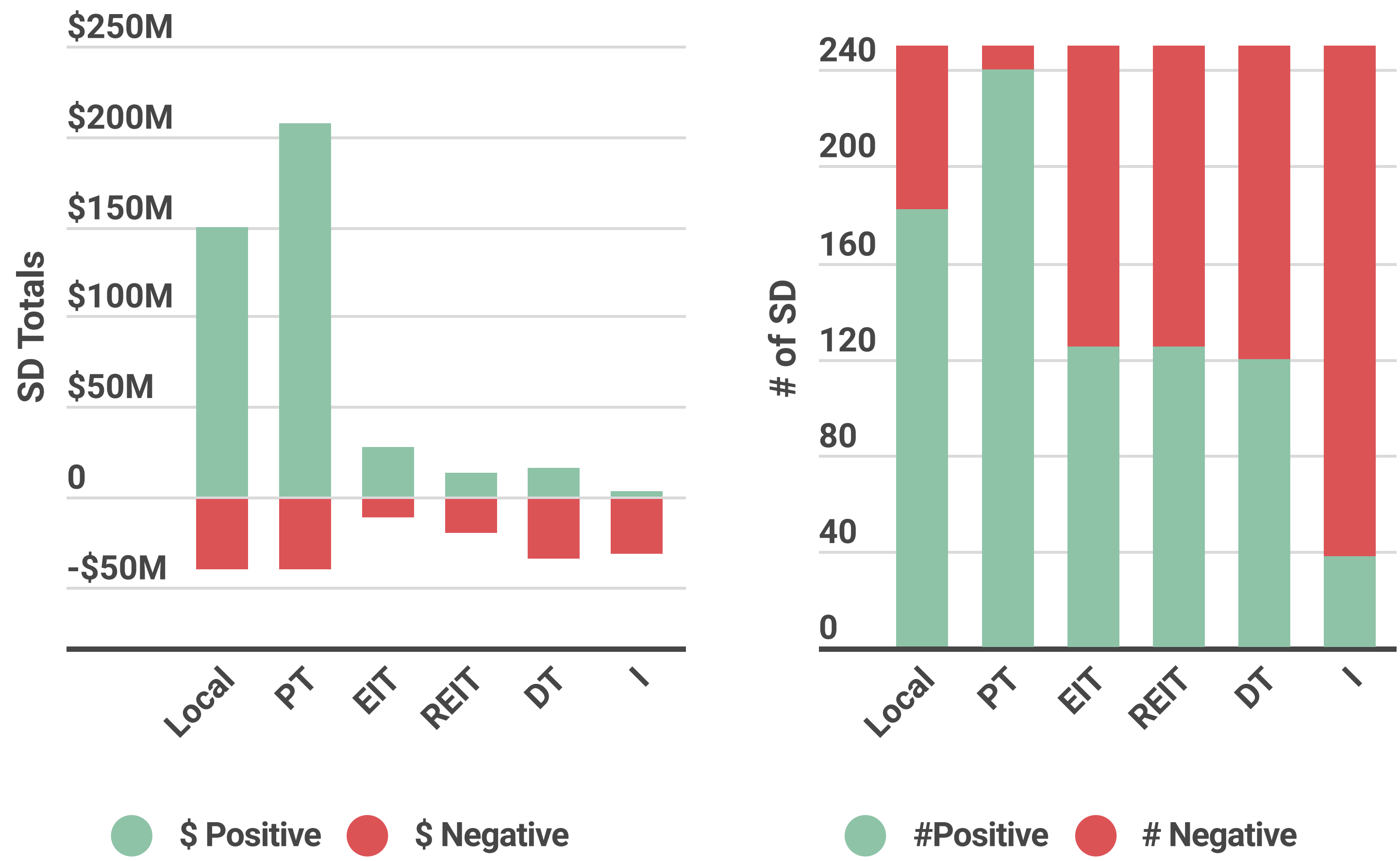
School districts struggled to build plans to educate students at home for more than two months and to check in on and assess student progress remotely. School districts scrambled to obtain and distribute computers, iPads, laptops and other devices for students and staff as they also worked to find solutions to internet access challenges. Many districts had well established online learning programs in place, however, the scale of those programs was not designed to reach the sudden need of greater student populations.

School districts got whiplash from the frequent flow of guidance from all directions on everything from how to count students and how to provide special education in a remote environment to how to properly disinfect school facilities and what to do when an employee became infected with COVID. School districts also braced for local revenue challenges—particularly in earned income tax (EIT), investment income, final property tax collection rates, assessment reductions and increasing assessment appeals—all of which will continue into 2020-21 and 2021-22 at a minimum.

As the 2019-20 fiscal year (FY) was front loaded with historic low unemployment and economic expansion, local revenue generally increased for our respondent districts. However, with the slowing of the economy and rise in unemployment rates due to the pandemic in spring 2020, many districts began to see some impacts on their local revenue. Figure 1 shows the 2019-20 local revenue by category for our respondent school districts. In 2019-20, interest earnings, real estate transfer taxes, delinquent taxes and EIT were immediately impacted most significantly by the pandemic, with at least 20% of school districts experiencing declines in those revenue categories even though the pandemic covered only three months of the FY.

As districts were experiencing local revenue declines in EIT or real estate transfer taxes, 2019-20 base and discount collections periods for property taxes were largely unaffected as they were due prior to the onset of the pandemic. While property taxes were not impacted by COVID in 2019-20 (and many respondent districts indicated that their property tax revenue increased in 2019-20), the story in 2020-21 could be much different.

Figure 1: 2019-20 Local Revenue Impact By Category for Respondent School Districts



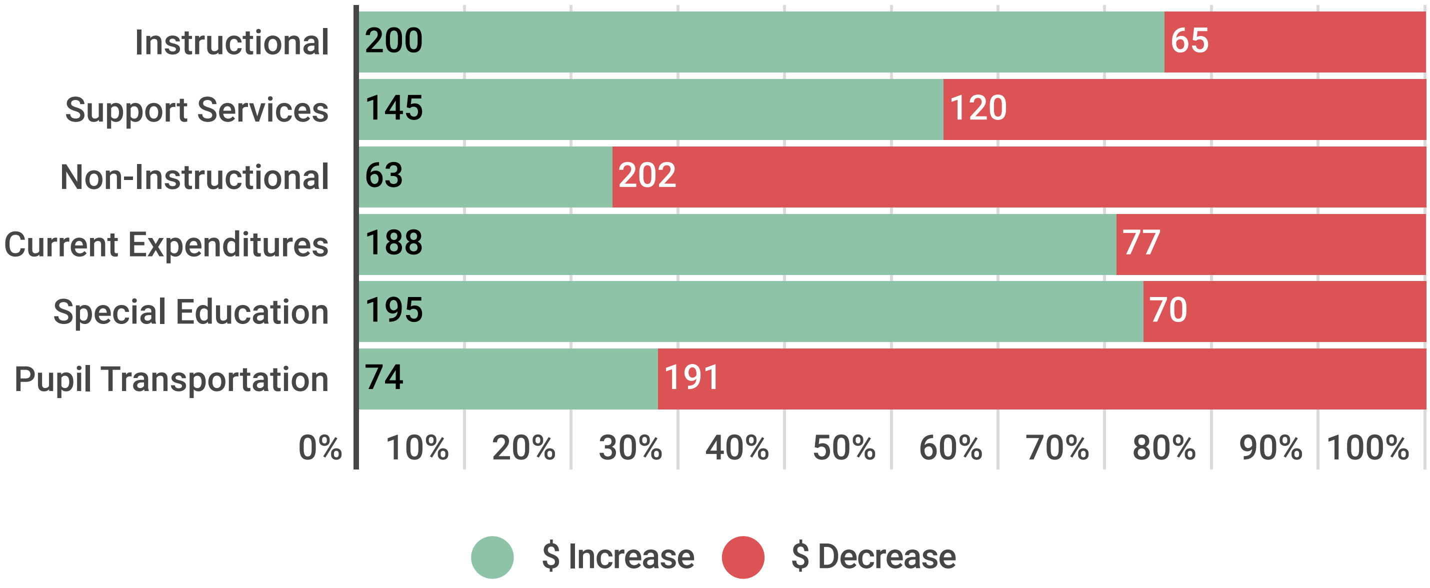
Local: Total Local Revenue
PT: Property Taxes
EIT: Earned Income Taxes
REIT: Real Estate Transfer Taxes
DT: Delinquent Taxes
I: Investment Earnings

Source: School District Survey Responses and AFR Data

On the other side of the ledger, 2019-20 AFR data shows some of the earliest signs of the COVID impact on schools. Figure 2 illustrates the number school districts that reported an increase or decrease in each expenditure category for 2019-20. As districts avoided costs in some areas due to COVID closures, they increased costs in many others, and resource allocations had to be shuffled and adjusted to meet ever-changing challenges.

With most of the 2019-20 school year functioning normally and Act 13 of 2020 requiring school districts to pay all employees as though the pandemic had not occurred, there was little room for any divergence from the norm in some categories, such as instructional costs. Other school district expenses were unaffected by the pandemic, such as debt service, property maintenance and insurance coverages. Yes, some savings were possible, but only over the last quarter of the fiscal year.

Figure 2: 2019-20 Expenditure Changes for Respondent School Districts



Source: School District Survey Responses and AFR Data

Looking at the pupil transportation category, however, the COVID impact is visible. The Act 13 mandate to pay school district employees did not apply to contractors, and many school districts renegotiated a lower contract rate with their transportation contractor or did not pay their contractor during school closures. Of course, with buses not running, fuel purchases were not needed. The result is that many school districts paid less in pupil transportation in 2019-20 than the prior year.

While the chaotic end to the 2019-20 school year was happening, school districts were finalizing their 2020-21 budgets. With no certainty regarding the extent to which the pandemic would impact the 2020-21 school year, 2020-21 local or state revenue or the restrictions or rules under which they would have to reopen, school districts did their best to pass budgets that could adjust to all circumstances and spent their summers planning for all scenarios at breakneck pace.

Part II: The 2020-21 COVID-19 Impact

The flip from the 2019-20 fiscal year to the 2020-21 fiscal year was an exercise in trying to hit a moving target—instructionally and fiscally—as it marked a countdown to the start of an unprecedented school year. As the summer went on and additional guidance was presented regarding COVID-19 in school settings, districts continued the challenging process of developing plans to define how they would open the school year.

In some cases, this involved opening for in-person instruction five days a week with social distancing and new PPE requirements. In other cases, it meant opening for in-person instruction on an A/B schedule with some students attending school in-person on some days and remotely on other days to better accommodate social distancing needs. In other cases, this involved full online instruction for all students.

In many cases, the start of the 2020-21 school year looked like a blend of all of the above, and it was not unique for a school district to have some students attending school in-person five days a week, while other students were on an A/B schedule and others were enrolled in the school district's own cyber program.

The logistics and considerations of each instructional model were complex in terms of staffing, training, technology needs, PPE needs, etc. The instructional model, to a large degree, defined the challenges and additional costs that a school district had for the 2020-21 school year. For example, if students were attending school in-person, costs for cleaning and disinfecting supplies and custodial staff were likely much higher than ever before.

However, if students were attending school fully online, technology costs for everything from computers, laptops, microphones, cameras, power cords, hotspots and WiFi were often off the charts. For those school districts doing both, those unplanned costs were extreme on both sides.

A new instructional model for the 2020-21 school year would be challenging enough, however, it’s important to remember that every school district had to be prepared to change instructional models at a moment’s notice in response to COVID infections rates.

Heading into the 2020-21 school year, COVID rates varied across the state, and guidance on school closing and reopening protocols were coming fast from all directions. Each school district built a plan that identified the instructional models they would be using as school year opened, recognizing that changes would be necessary as the year progressed.

At a high level, about 34% of survey respondents indicated that they opened with five days of in-person instruction per week for all students. Another 17% reported that they opened with five days of in-person instruction for some students (most frequently for elementary school students) and an alternating hybrid schedule for others. Another 20% reported that they opened with an alternating hybrid schedule for all students, meaning that all k-12 students attended some in-person instruction and were also provided remote instruction. Another 20% of districts reported that they opened remotely for all students. It is clear that districts responded to a wide array of local constraints and factors as they implemented their opening plans.

Despite the broad categories noted above, no two district plans looked exactly the same, as each was tailored to the unique situations, circumstances and needs of the students and staff in each community. In many cases the smorgasbord of models was heavily influenced by the constraints within their transportation systems, staffing ability and other system capacities.

It was also no surprise that the way each individual school district defined its instructional model was unique. For example, respondents used all of the following terms to describe the online portion of their programs: virtual, remote, cyber, online, distance, asynchronous and synchronous. There was similar variation when describing A/B or hybrid models and in-person models.

While the differences in the details of these plans were unique to each district, the instructional models—and changes in those instructional models—drove the often similar experiences, challenges and associated costs that districts are experiencing this fiscal year.

When asked about the biggest challenges for the 2020-21 school year, the impact of the new instructional models is evident. Nearly 93% of respondents indicated that this school year required an increased use of remote materials for students and parents, while 84% expressed an increase in the extent of online programming offered. While these responses would perhaps be expected, the scope and depth of these responses may have profound education policy implications as districts continue to build a continuum of educational platforms and offerings to students. See Figure 3.

Figure 3: School District Respondent Challenges of 2020-21 School Reopening	% of Respondents
Increased use of remote learning materials for students and parents	92.83%
Significant increase in online programming offered	84.30%
Increased dedicated staffing assignments to contact students and parents for monitoring students	47.09%
Increased mix of in-home, in-school and after-school offerings	39.01%
Reassignments of teaching staff to new roles to address instructional models	57.40%
Increased courses via outside programs/contracts for students	38.57%

Source: School District Survey Responses

Additionally, staffing needs were reported as consistent challenges for this school year with some districts needing to reassign staff to adjust to new instructional models and COVID protocols and others increasing staffing assignments to better monitor student work and progress with students and parents.

Digging deeper into the staffing challenges articulated by survey respondents, the dilemma was two-fold. First, to accommodate the social distancing requirement for classrooms, more space and more staff were needed. Reducing student-to-teacher ratios was a COVID requirement that heightened shortages of space and staff. Smaller classes due to social distancing precautions meant a need for more classroom space and more classroom spaces require more instructional staff.

Second, to accommodate A/B models or parallel online learning programs, either new hires or reassigned teachers were needed. While classroom capacity was diminished, one teacher simultaneously could not easily provide in person and online instruction.

Further, decision-making needed to include state certification requirements for placing instructional staff. Pennsylvania has strict certification requirements, and hiring new teachers would have been much less of a challenge than identifying certification-ready teachers.

Adding to the complexity of the staff COVID transition were the health concerns of school employees, which resulted in some staff being deployed in solely remote teaching roles that created holes in in-person classrooms. On top of that challenge, there were daily absences of instructional staff that complied with state guidelines for quarantining when contracting or being exposed to COVID.

Overall, the intersection of certification compliance with health-related needs of staff, created a complex decision-making process that was more time-consuming to complete. More than three-quarters of the respondents indicated they had experienced difficulty meeting state-required teacher certification criteria as existing staff must be allocated and reallocated with ongoing COVID absence/leave needs.

Almost 90%

Respondents reported it was very difficult to maintain professional staffing levels.

Almost 85%

Respondents indicated it was difficult, if not impossible, to find substitutes.

In examining all of these overlapping conditions, it was not surprising that almost nine out of ten survey respondents reported that it was very difficult to maintain professional staffing level needs. Adding greater complication, substitutes to meet short term staffing needs are difficult to find, as nearly 85% of survey respondents indicated it was difficult, if not impossible, to find substitutes.

Despite these new and complicated challenges for opening schools this year, there is a silver lining. Nearly 100% of survey respondents indicated that their professional staff is working well together to provide daily instruction to students, highlighting the fact that school district staff have unified and kept a student focus despite the uncertainty and ongoing challenges of the pandemic.

Another area of school district operation that was significantly impacted by the 2020-21 instructional model changes was school district transportation. Once a school district defined their instructional model for the start of the school year, the next problem-solving step was to determine how student transportation was going to be restructured to accommodate the school year.

The transportation conundrum was an exercise in altering the usual series of school bus stops and routes with, in some cases, a radically altered number of students. While a reduction in the number of students attending school for in-person instruction would have been a straight-forward process, the requirement for social distancing was an additional bump in the road. Creating a socially distant classroom was one hurdle, but creating social distance protocols for student transportation was even more challenging.

While districts may have been transporting fewer students to school, they were also transporting fewer students on a bus to adhere to social distancing requirements. In some situations, potential savings from the reduction in the number of students transported was negated by the increase in the number of school buses transporting students on a daily basis due to social distancing.

In addition to the challenges of defining how to transport students to school during a pandemic, many school districts faced challenges regarding their school transportation contracts. The potential of reducing school transportation contractor compensation for reduced service due to the pandemic needed to be balanced against creating problems in the future.

Simply not paying a contractor could mean that districts would eventually suffer the double whammy of a reduced number of student transportation providers (attrition in small businesses that simply couldn't survive) and consequently, loss of the school bus drivers, of which there has been an ongoing shortage. A short-term savings opportunity needed to be viewed with the potential for long-term negatives.

As a result, our survey reflects that less than 2% of the survey respondents were no longer paying their transportation contractors. While some respondents (16%) indicated that they had reduced transportation contractor payments, most respondents indicated they were continuing to pay as scheduled for 2020-21.

School district transportation wasn't the only facet of school district operations that was and continues to be impacted by the pandemic. Probably one of the most significant pivots occurred in food service where, in some cases, the scope of operations went from in-school meals to feeding entire communities.

Food service directors opened their programs to community drive-ins to feed all students for no charge. For some districts, the change in scope, aided by waivers in federal policy, resulted in increasing food preparation and staffing, sometimes covered by other school employees or even volunteers.

For short periods of time, sustaining a community feeding program meant more meals, more personnel and more cost, the latter being offset by additional federal reimbursements. When school openings began and federal reimbursements to subsidize community feeding programs stopped, food service programs flipped their numbers.

With closures and hybrid schedules, not as many students are in classrooms during the current school year, which means less meals being served requiring less labor. As a result, nearly one in three survey respondents said their food service departments were operating at reduced staffing levels.

Despite potential reductions in labor costs, however, the reduction in student meal sales due to less in-person instruction was a bottom line casualty. Fewer students means fewer meals served, which in turn means less revenue.

More than 60% of survey respondents indicated their district was serving fewer meals than they were pre-COVID, and more than half (55%) reported their food service department was operating at a loss this fiscal year. These food service fund losses will have to be covered by the district's general fund creating yet another unanticipated COVID expense for 2020-21.

Switching gears from the food service implications of changing instructional models, in addition to the basic instructional models for each district for the 2020-21 school year, many districts offered, improved and expanded their own cyber programs, providing students a full-time online option to students and parents.

For the current school year, 75% of respondents reported offering a full-time school district-run cyber program for all students in grades k-12, while another 6% of respondents offered a full-time school district-run cyber program for some students. These cyber programs look different in all 500 school districts. In some cases, school districts expanded or enhanced full-time cyber programs that were already up and running in prior years. In other districts, these full-time cyber programs were developed and rolled out for this school year.

81%

Respondents offer a district-run cyber education program.

37%

Respondents offer an additional cyber option for students via an IU program or another contracted option.

Many school district cyber programs are standalone efforts that run entirely parallel to in-person instruction and involve full-time cyber program staff providing both synchronous and asynchronous instruction. Some other cyber programs provide a live-stream of the in-person instruction, while others offer asynchronous programs.

The number of students that enrolled in district-run cyber programs varied by district, however, 77% of survey respondents indicated an increase in enrollment in their own cyber programs for 2020-21. In some cases, this could be due to concerns about COVID exposure in a school setting, increased quality in and comfort with the district's online programming, better marketing of the program or all of the above.

With these new, improved or expanded district cyber programs came new challenges, which were validated through multiple questions on our survey. In addition to the additional cost for technology and the complications of providing adequate internet access, came the staffing challenges noted above and the difficulty in ensuring that students log on and complete their work.

Figure 4: Challenges of Implementing School District Cyber Programs	% Respondents
Getting students/parents to log on/do work	74%
Increased technology costs	73%
Student/staff internet access	70%
Training staff to improve/enhance use of cyber programming	63%
Curriculum adjustments	59%
Time to procure technology to deliver cyber programs	54%
Finding sufficient staff for cyber programs	39%

Source: School District Survey Responses

These challenges come on top of others associated with the school district's instructional model, as these cyber programs were often offered parallel to in-person or hybrid instruction. In addition to the school district-run cyber programs, 37% of survey respondents indicated that they offer an additional cyber option for students via an IU program or another contracted option. This means that for the 2020-21 school year, some school districts are offering students at least three instructional models of education during the COVID-19 pandemic.

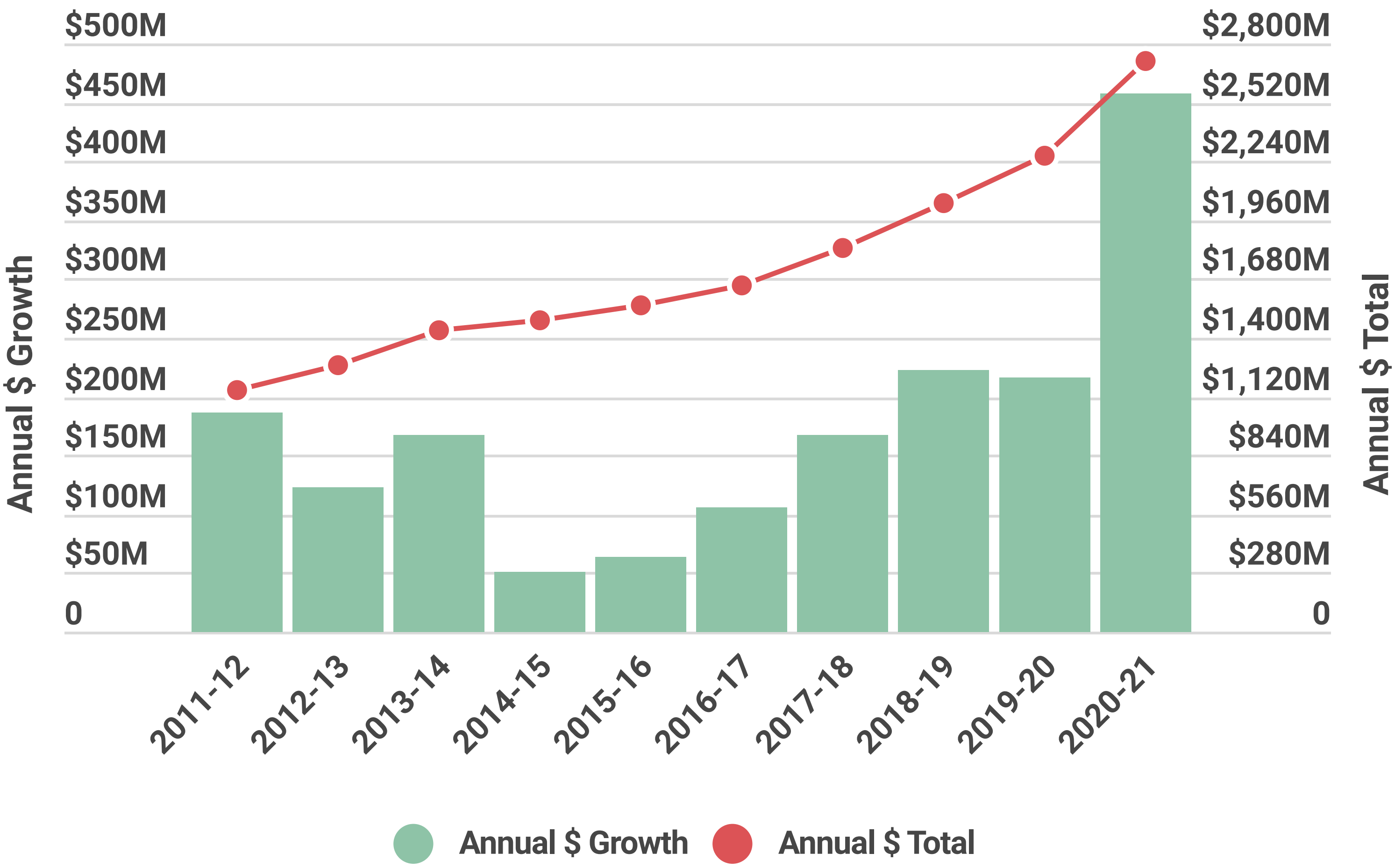
In addition to the online options school districts are offering to students this year, cyber charter schools have also attracted a significant number of new students, increasing their own enrollment by more than 20,000 students. This increase in enrollment came from parents and students opting to enroll in cyber charter schools leaving from district schools, non-public schools and brick and mortar charter schools.

One of the fastest growing mandated costs for school districts in a normal year is due to the mandated payment of charter school tuition. The massive cyber charter school tuition increase due to the pandemic is wreaking havoc on school district budgets for 2020-21. This expenditure alone was cited frequently (see Figure 3) by survey respondents as a priority budget concern both in 2020-21 and looking ahead to next year.

Overall, charter school tuition costs increased by $1.4 billion between 2013-14 and 2018-19—an average of more than $250 million per year, and while increases in charter school enrollment have not been the driving factor behind charter school cost increases in the past several years (annual tuition rates have outpaced enrollment growth), this year is different.

In addition to the "routine" increase in the cyber charter tuition rate (estimated to be between $125-150 million this year), which results from the statutory tuition calculation that is based on school district budgets, the increase in cyber charter enrollment could mean that school districts must pay an additional $350 million more in cyber charter tuition in 2020-21—an estimated total increase of about $475 million compared to 2019-20 (see Figure 5 below).

Figure 5 : Historical and Estimated Annual Charter School Tuition Growth and Total Costs



Source: School District GFB, AFR and PIMS Enrollment Data and PASBO Modeled Projections

Overall, survey respondents have reported that the 2020-21 school year is a combination of the same expenditure challenges they face on an annual basis (special education, pension and charter school tuition costs) with a host of additional and new pandemic-related costs piled on top. Necessary changes in instructional models required changes in supplies, technology, staffing and transportation, while COVID exacerbated the cyber charter tuition challenge, lumping an additional $350 million price tag onto the cost of school district education this year.

To get a clearer picture of what school districts are facing right now, however, we also have to also look at revenues. School district revenue from all sources—local, state and federal—has been impacted by COVID-19.

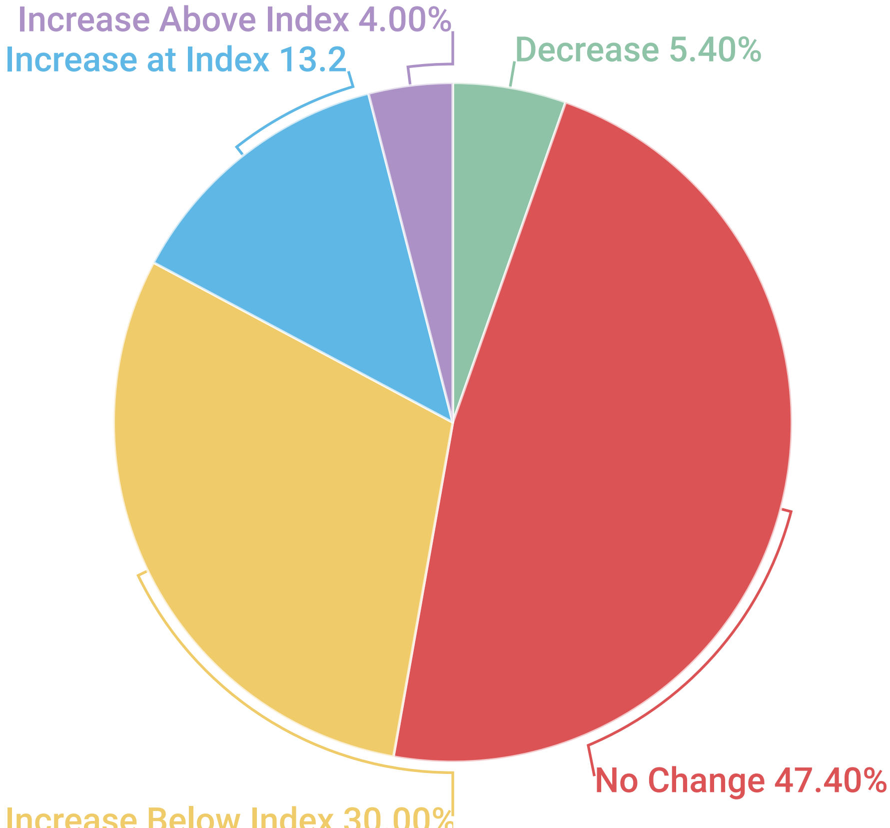
Looking first at local revenue, the impact of the pandemic has still yet to become clear. Focusing on property taxes, which make up the majority of school district local revenue, the COVID footprint is immediately evident.

Recognizing that local taxpayers could be struggling through the economic repercussions of the pandemic, many school districts extended property tax payment discount periods, did away with penalties and, for the first time since even before the inception of Act 1, more than half (53%) of school districts didn't raise millage rates. With state stress in processing unemployment claims and individual issues with federal CARES Act payments, these efforts by districts provided many taxpayers additional time to align financial needs.

Figure 6 shows that in addition to the 53% of school districts that didn't raise or lowered millage rates, 30% raised rates below their Act 1 Index and only 13% raised rates to their Act 1 Index. These numbers are in stark contrast to the results of every school district budget survey that has come before, where in past years more than 70% of districts increased taxes to some degree.

Additionally, many school districts reported an anticipated decrease in assessed value (AV), as noted in prior budget surveys, school districts are not equal when it comes to their tax base.

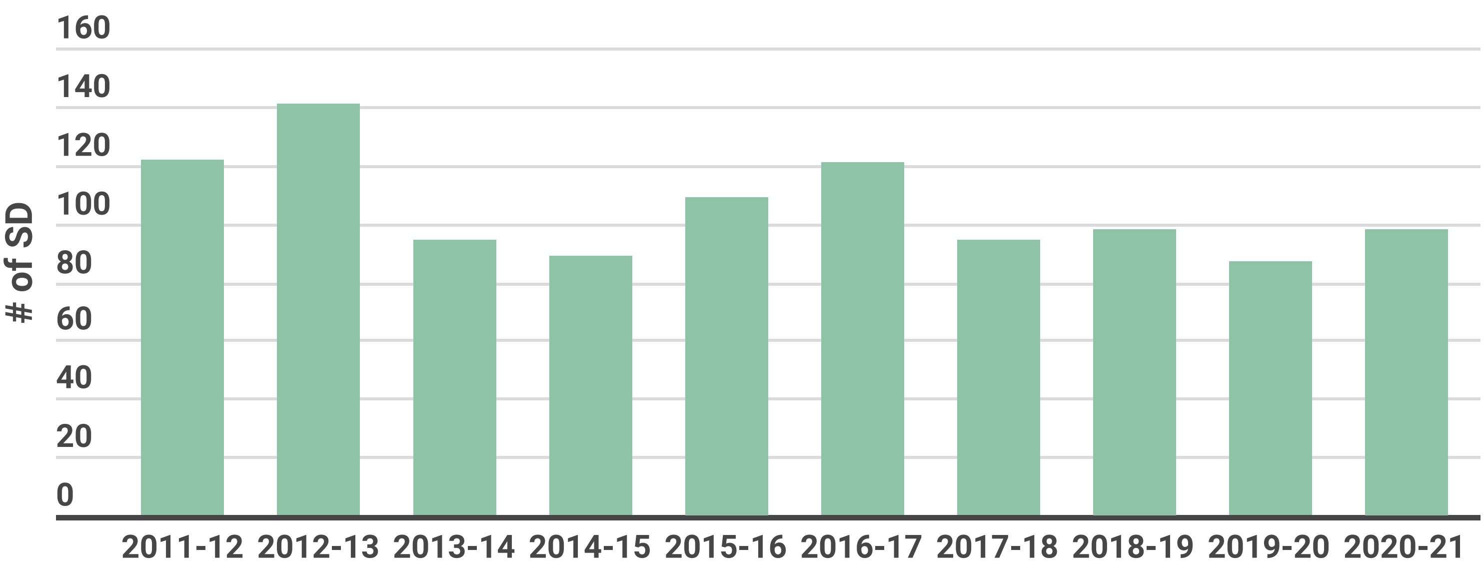
Figure 6 : 2020-21 Millage Rate Changes



Source: School District GFB Data

In examining AV—the value upon which property taxes are based—not all school districts experience AV growth from year to year, and on average about 20% experience a decline in AV from year to year. Figure 7 below shows the number of school districts each year that face a decline in their AV. Roughly 20% of all school districts experience AV decline each year and generally that is due to one-time occurrences, while others experience multiple consecutive years of AV decline.

Figure 7: Number of School Districts Experiencing Assessed Value Decline

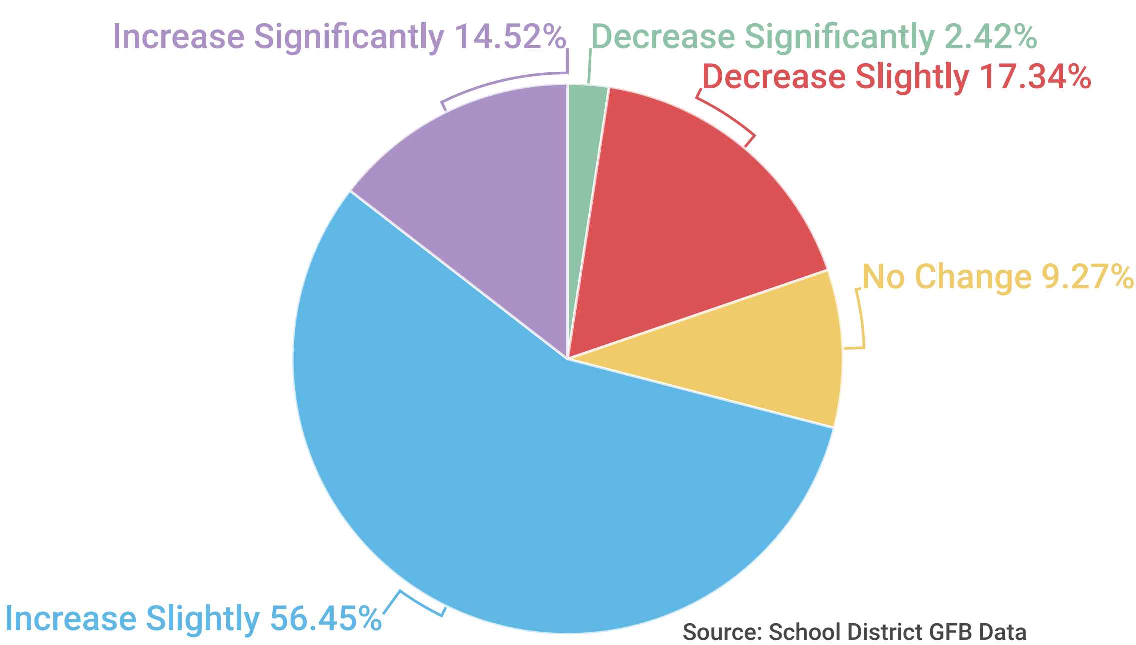


Source: School District General Fund Budget Data and DCED STEB Data

When a school district's AV declines from the prior year, that district needs to increase property taxes just to generate the same property tax revenue as the prior year. Those school districts are, by definition, starting behind every year, as a portion of their tax rate increase isn't going to cover annual mandated cost increases or additional COVID-related needs. A portion of their tax rate increase is spent just getting them back to status quo.

In terms of what school districts anticipated for 2020-21, Figure 8 shows how AV growth—or lack of it—could be impacting property tax revenue this year. As we have seen in past year, about 20% of school districts are anticipating AV decline, while another nearly 10% is anticipating no AV growth.

Figure 8 : 2020-21 Assessed Value Growth



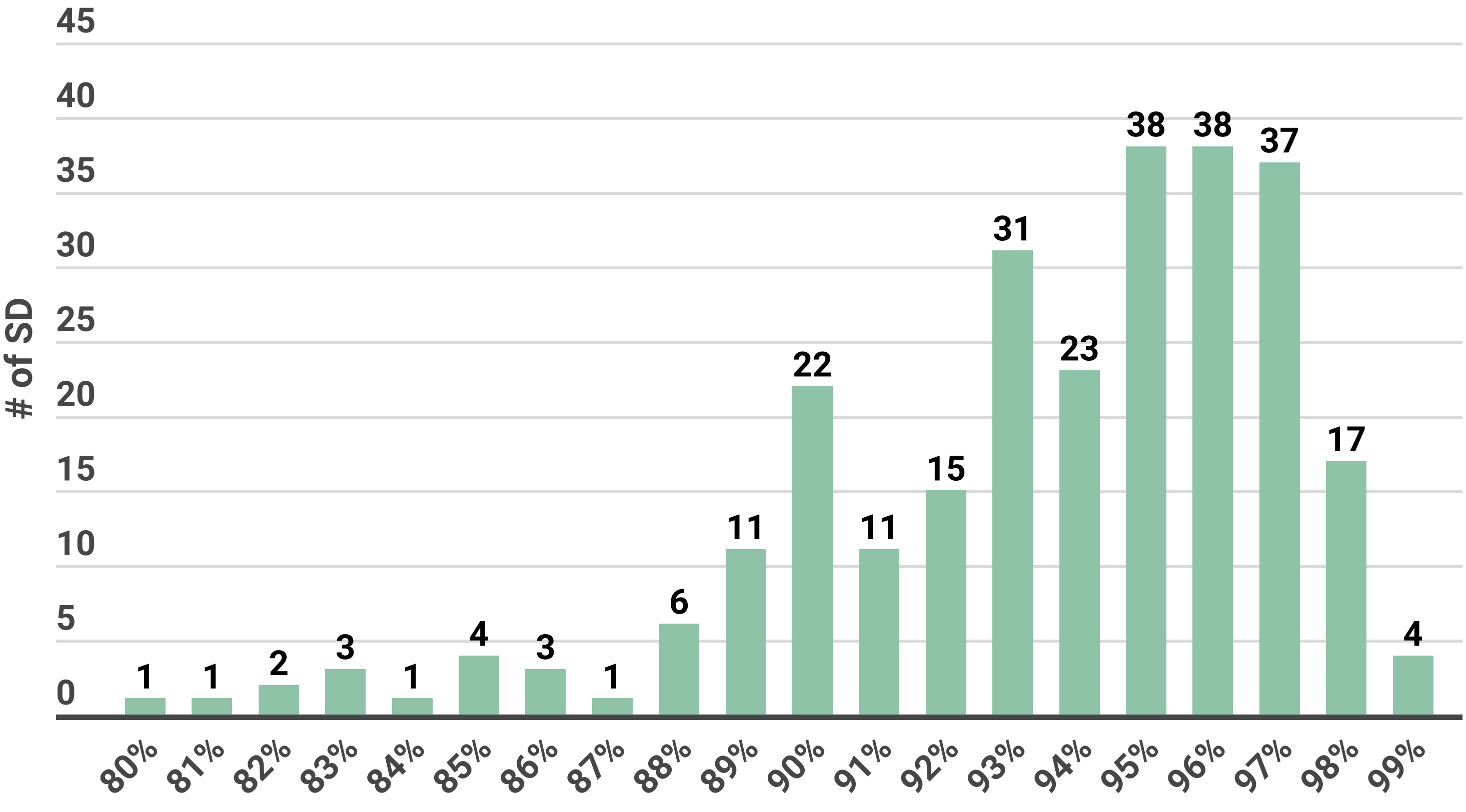
Source: School District GFB Data

For these districts, any minimal changes in property tax collection rates or payment schedules will be exacerbated.

In addition to school district adjustments in property tax rates and payment timeframes to accommodate pandemic-related financial challenges of school district residents, school districts had to take into account potential declines in property tax collection rates due to COVID. The extent of these potential declines will be unknown until late spring 2021 as counties issue assessment appeal determinations, and they are likely to impact each district differently.

Overall, school district property tax collection rates vary in each individual community, and Figure 9 below shows the number of districts at each percentage rate of property tax collection in 2019-20. This rate is defined as the percentage of their total (100%) property tax duplicate a district collects within the school year for which they are budgeting.

Figure 9: School District Property Tax Collection Rates



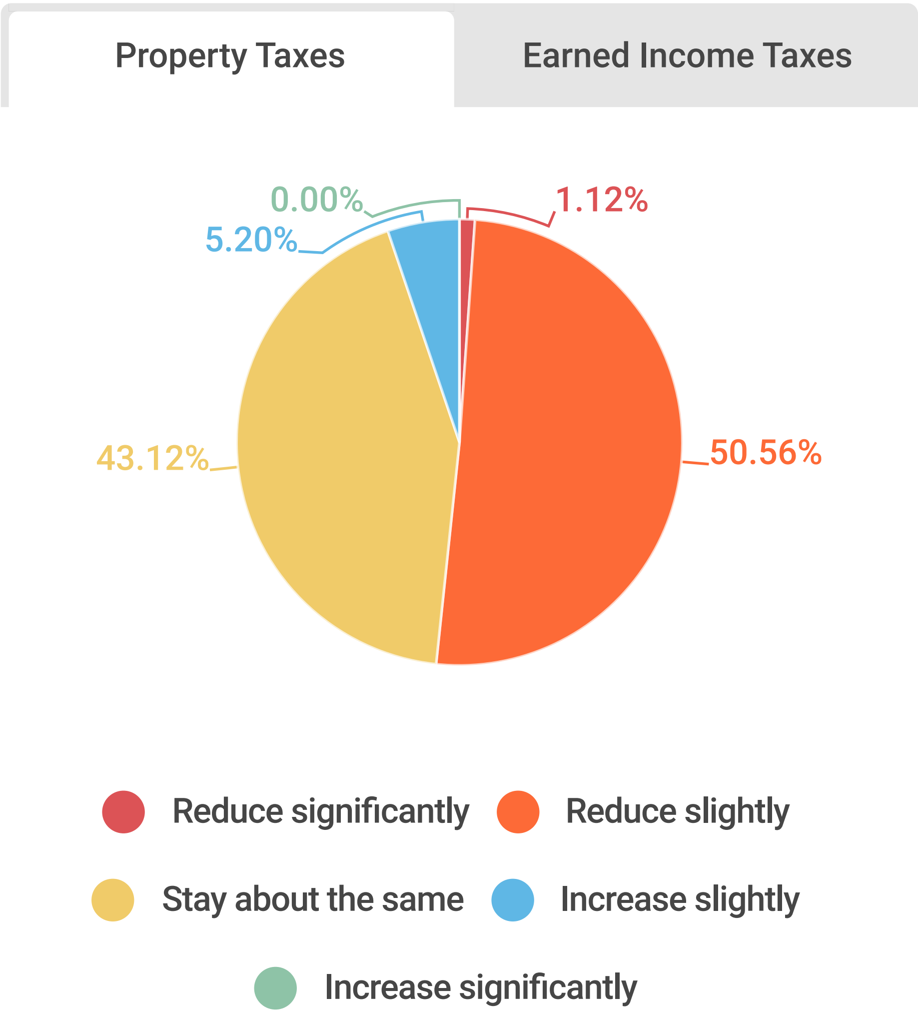
Source: School District Survey Responses

Figure 9 shows that districts collect less than the total property taxes billed in a year. Wealthier districts generally have higher collection rates, while poorer districts collect less. As an example, 22 districts that indicated a 90% collection rate, meaning they will not collect 10% of the value of the property taxes billed annually. However, those uncollected bills will be turned over to collection bureaus or counties as districts may need to wait several fiscal years for the process to play out. Districts rarely, if ever, collect 100% of the duplicate base value of their property tax billings.

Survey results also showed that a slight majority of respondents anticipate that they will see a reduction in their property tax collection rate, while another 43% anticipates that it is likely to stay the same (see Figure 10). The implications for even a small decrease in collection rate—especially if a school district also extended the discount payment period and/or eliminated the penalty period—could have a significant impact on local revenue for the current school year.

To illustrate, if a district with a $25 million property tax budget experiences a reduction of just 1% in collection rate during the year, that will leave a $250,000 hole in their current year budget. Much of this is dependent on the demographics of the district and whether they have large segments of their population or employers being hit hard financially by COVID impact.

Figures 10 & 11: Anticipated Changes in Property Tax and Earned Income Tax Collection Rates in 2020-21 (multi-tab)



Source: School District Survey Responses

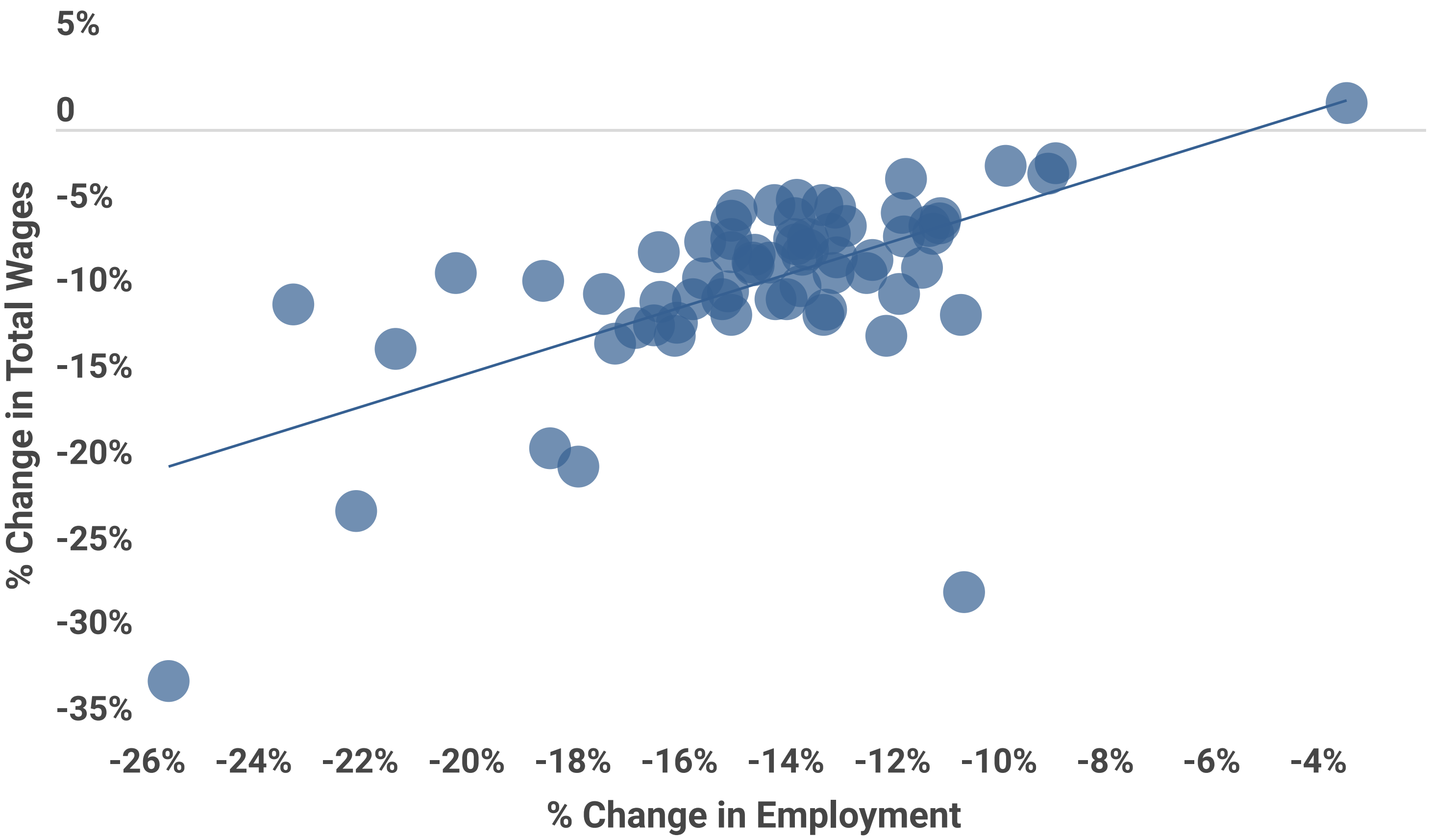
Like property tax revenue, another local revenue many school districts are watching this fiscal year is earned income tax (EIT). As noted above, some districts were already impacted by EIT revenue decline in 2019-20, and based on Figure 11 above (click on the Earned Income Tax tab), many others are anticipating a decline in 2020-21 as well. Sixty-six percent of survey respondents are anticipating that their EIT revenue collection will decline, with another 24% anticipating that it will stay about the same as last year. Zero survey respondents anticipated a significant increase in EIT collection.

Like everything about the pandemic, the extent of the EIT impact and collection expectations will vary significantly by county and by school district. Reviewing wage and employment data from the PA Department of Labor and Industry illustrates the diversity of the COVID impact across the state for the first and second quarters of 2020.

Some industries have seen more significant impacts in terms of closures of establishments than others, with retail trade and accommodations and food services industries being hit the hardest overall in terms of closures and loss of employment.

How this plays out—and continues to play out—in each county and in each school district will define the scope of the EIT challenge for each school district. Looking at Figure 12 below, you can see the distribution of early COVID impact by county in terms of employment and wage changes when comparing Q2 2019 data to Q2 2020 (roll over each dot to identify the name of the county).

Figure 12: COVID Impact on Wages and Employment By County (2020 Q2 over 2019 Q2)



Source: PA Department of Labor and Industry Data

While it's simply still too early to gauge the overall extent of the pandemic's impact on school district local revenue for 2020-21, we will continue to evaluate the local revenue implications. One early data indicator from our other work is that EIT decline is more pronounced in lower income areas. The unemployment dip may be more significant in lower paying jobs, thus affecting some school districts to a greater extent than those with a higher income tax base. While, there is no way to generalize with any accuracy about the impact on individual districts, the ongoing economic challenges as the pandemic continues to surge paint a negative picture for many school districts.

In addition to local revenue, however, school districts also receive state and federal revenue. The state revenue for school districts in 2020-21 was defined by the General Assembly last spring and was entirely shaped by the state's response to COVID-19. For 2020-21, school districts were funded at 2019-20 amounts in the two most significant state line items—Basic Education Funding and Special Education Funding. While this was certainly a very positive outcome given the financial challenges facing the state, the level-funding simply means that more of a district's mandated cost increases have to be borne by property taxpayers.

The other bucket of school district revenue is federal funding, and the pandemic resulted in an increase in federal aid to school districts to assist them in dealing with the challenges and costs associated with the pandemic.

Last spring, the federal government provided Pennsylvania school districts with $399 million via the Elementary and Secondary Schools Education Relief (ESSER) Fund under the CARES Act. These funds, which were distributed to school districts based on their share of federal Title I allocations (which basically direct money based on a school district's population of economically disadvantaged students), are available for school districts through September 30, 2022 to use for certain COVID-related expenditures. However, a portion of the dollars available for each school district were designated for nonpublic schools in the district.

These eligible expenditures include the purchase of personal protective equipment and technology, pandemic preparedness and response, student and staff mental health services and supports and planning and coordination of operations during long-term closures. School districts had to apply for this funding last spring and are currently continuing to receive funding from this pot of money.

In addition to the ESSER funding, school districts were also eligible to receive an additional $174 million in federal funds that were distributed through grants from the Pennsylvania Commission on Crime (PCCD) and Delinquency. Each school district received $120,000 in these funds and an additional amount based on the number of students in the district.

These funds could only be used for limited COVID-related purposes, such as for the purchase of cleaning and sanitizing materials, equipment and training, the purchase of PPE, modifications to existing facilities to accommodate social distancing, and mental health services and supports. School districts had to apply to PCCD for these funds, and they had to be expended by the end of October 2020.

While the infusion of these federal funds for COVID relief was certainly welcome news for school districts, the nearly $575 million directed to school districts was still not enough to put a serious dent in the financial challenges that many districts are facing this year. However, as discussed below, school districts are awaiting a second round of stimulus funding that would drive an additional $1.6 billion to them for limited use through September 2023.

For many, these federal funds are plugging large holes welcome as school districts navigate the rest of the 2020-21 school year and build their 2021-22 budgets.

Part III: The 2021-22 COVID Impact

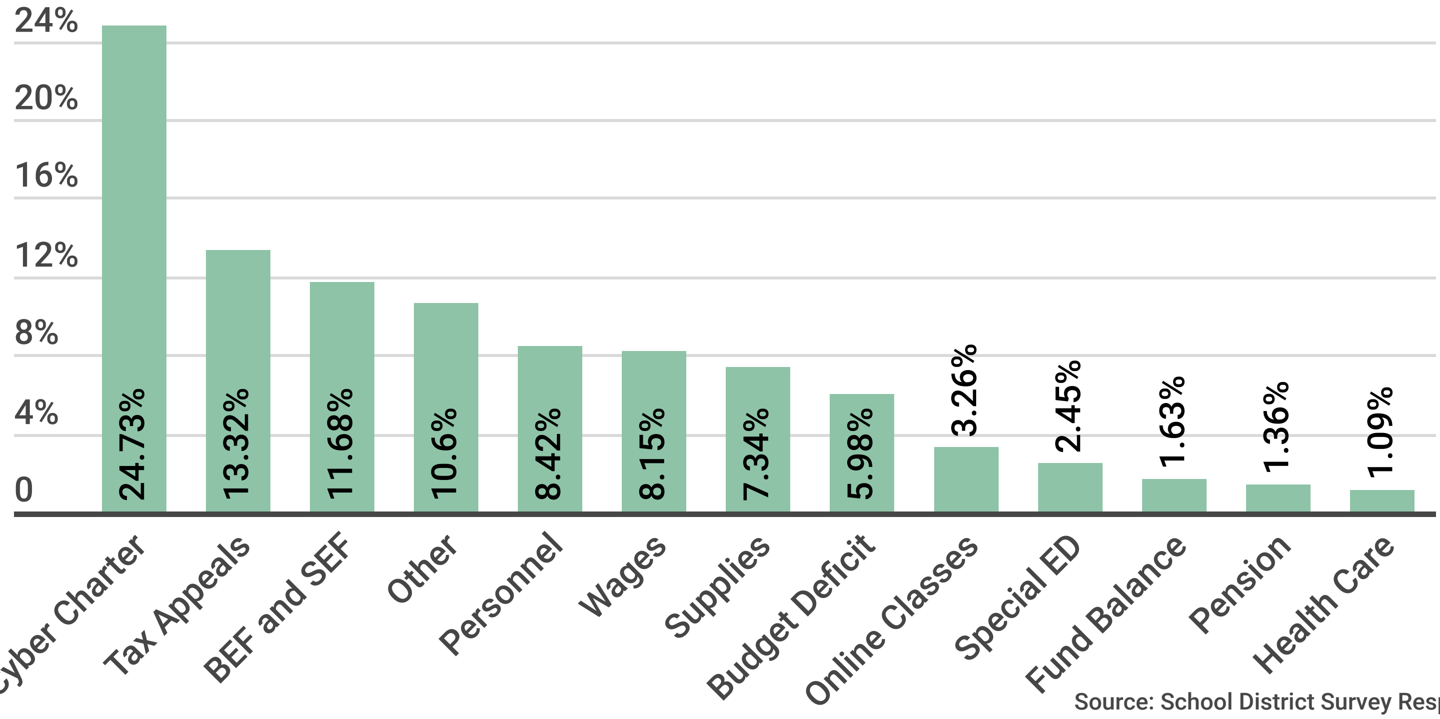
As noted above, the COVID-19 pandemic is not a single year event. It has already impacted two fiscal years, and the 2021-22 school year will be no different. The only uncertainty is the extent of that impact and how school districts and the state will be positioned to respond when federal monies are depleted.

Of the two surveys that we conducted to inform this budget report, the survey designed for superintendents looked ahead at 2021-22 and informed input on information about anticipated areas of budget and program concern given known COVID impacts and issues faced. We also asked several open-ended questions to identify themes in major concerns for the next school year. These questions, which were targeted to the areas of school finance, instructional programming and support programming, resulted in surprising uniformity in superintendent response.

First, we asked superintendents to describe the greatest budgetary concern and fiscal stressors their district faces in the 2021-22 proposed budget process. We then reviewed the responses and categorized the results into twelve major categories, with many respondents noting several top concerns for their 2021-22 budgets. As a result, the responses cannot necessarily be looked at in silos, as most of the districts face a combined impact of multiple categories. This would be especially true for those school districts facing larger cyber charter school cost increase with limited local funding ability and/or dependence on state funding.

Figure 13 shows that the largest financial concern expressed by superintendents was that of charter school tuition cost growth, dominated by the cyber charter school enrollment growth for the current fiscal year. This cost growth was noted in nearly 25% of the responses.

Figure 13: Financial Concerns of Respondent School Districts for 2021-22



Source: School District Survey Responses

The cyber charter school tuition concern was followed by concerns about local tax revenue, which was contained in 13% of responses. Many responses combined both the cyber charter tuition concern and the local revenue concern, noting large cyber charter cost increases for budget planning that will require program or service reductions as revenue increases cannot cover the scale of those cost increases. These local tax concerns included assessment appeals, low growth or decline in assessed value, inability or concerns to tax at the Act 1 Index and EIT and local tax base reductions overall.

Nearly 12% the responses indicated concerns over state Basic Education Funding (BEF) and Special Education Funding (SEF). These concerns were predominately noted by districts most reliant on the state for funding, however, this response was often conjoined with a concern for local taxes as the two funding streams are related. If the state does not fund small annual increases, when a district is faced with higher costs the only options left are local tax increase and program or service reductions.

For 2020-21, the state froze BEF and SEF at the 2019-20 levels, which provided a significant stability factor to district budgeting and planning in the middle of the COVID economic storm. For those most reliant on state funding, the stability this brought for 2020-21 was good fiscal policy. With BEF and SEF flat-funded, that suspended the new dynamic funding formulas so that many districts that may have seen reductions and those that would have seen an increase, all remained flat.

Moving into a second potential year of flat-funding for 2021-22, those districts most reliant on the state (and by definition, those least able to rely on their local tax base capacity to lift themselves) will bear the largest burdens in program and personnel cost reductions and tax rate increases. It also raises concerns for how and when to reinstate the BEF and SEF formulas' dynamic metrics and the impact multiple years of metric changes may have on any single year of funding.

Personnel and wage concerns were each raised in greater than 8% of the responses. While the categories may contain some overlap, the context of the responses for personnel represented a dominant theme of struggles to staff needs and find personnel to do the hard work related to COVID era requirements. With regard to the wage category, that was dominated by concern about the ability to fund competitive wages to keep staff as well as fund prior contractual labor agreements.

The supply category was dominated by three distinct concerns that focused on the ability to actually get supplies such as technology for students and staff or sanitization and PPE supplies due to shortages of products and the ability to pay for those new costs. Several respondents noted that 2020-21 federal funding has covered some of the costs, but in looking at 2021-22 it is not known if that funding will exist. Since the survey we now know there will be additional federal funds for these purposes available.

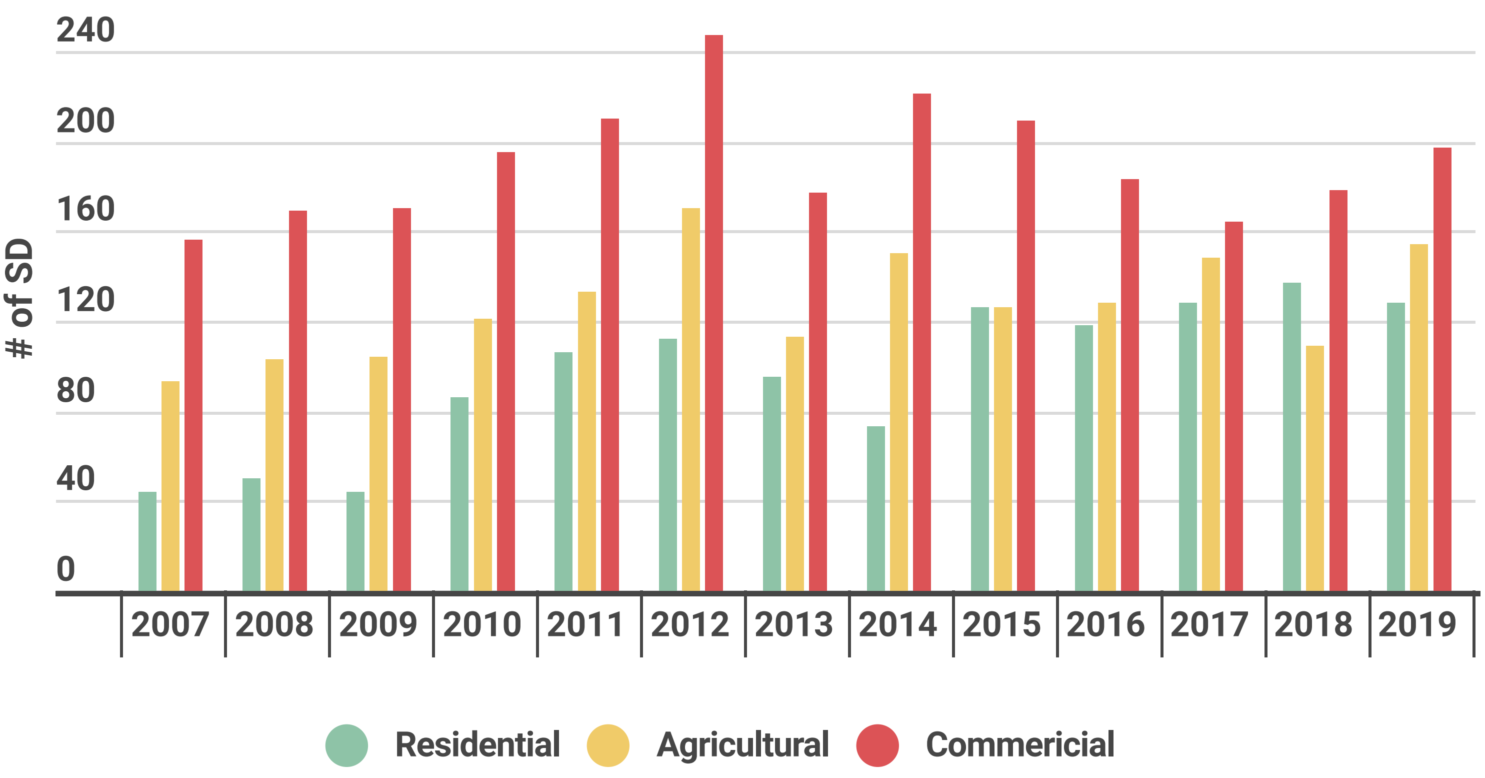
About 6% of all responses noted that they faced deficit budgets or had little to no fund balance reserves to provide some flexibility in 2021-22. On top of that, about 3% of responses specifically noted the increased costs for their own district-run cyber program offerings. Special education, pension, and health care cost concerns combined for another 5% of responses.

Finally, nearly 11% of responses fell into the Other category, which included a wide variety of district-specific concerns with the most dominant response noting concern in planning with so many financial unknowns. Multiple responses included transportation costs, loss of federal dollars, dealing with cuts and reductions, collective bargaining issues and the overall economic impact.

A more in-depth analysis of one of the top categories of budgetary concern for many school districts for 2021-22—declines in local revenue—indicates there are certainly reasons for anxiety across school districts regardless of the extent of local revenue reliance.

Looking ahead at 2021-22, local revenue concerns are certainly heightened for certain school districts, particularly those experiencing AV decline as discussed above. In further examining AV decline, the type of property—residential, commercial or agricultural—makes a difference. Figure 14 below shows the number of districts facing AV declines each year on each property type. Overall, more districts experience AV decline on commercial property than any other property type.

Figure 14: Number of School Districts Experiencing Assessed Value Decline By Land Use Type

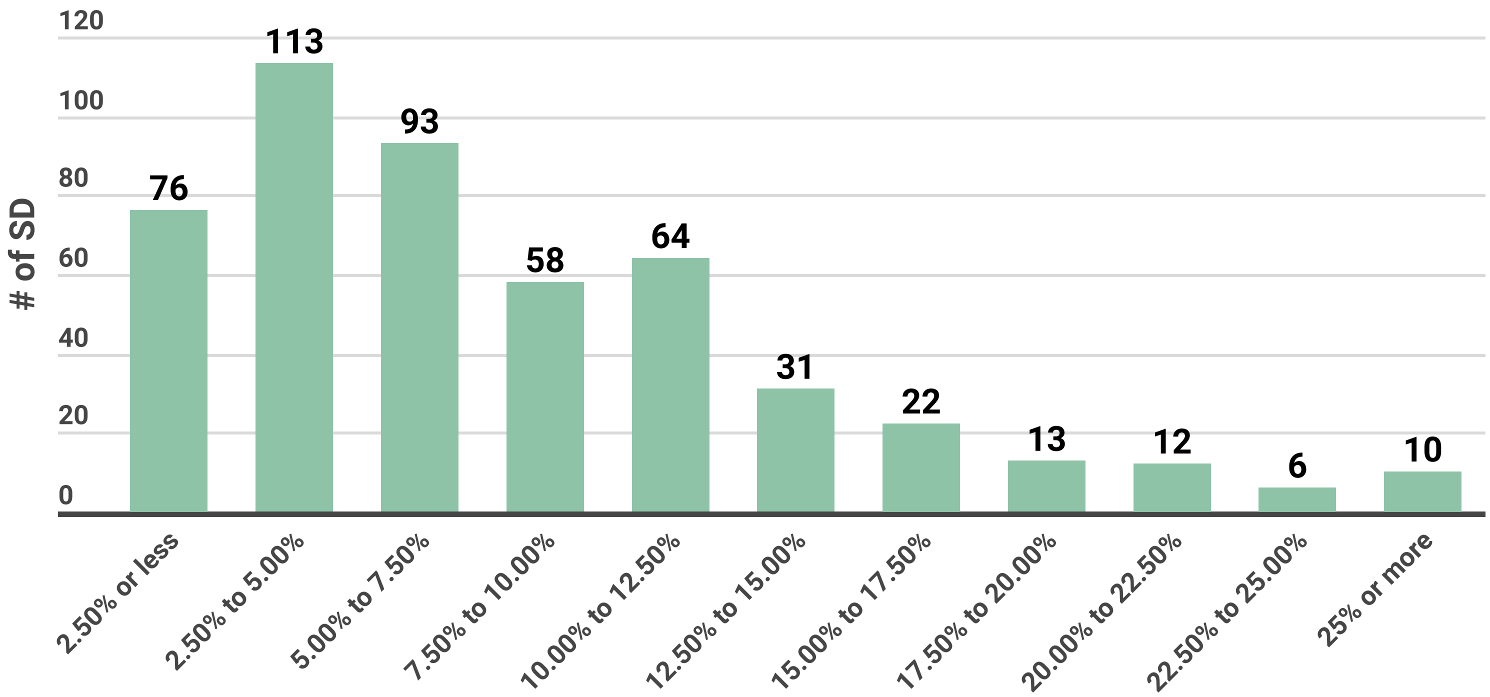


Source: PA Department of Community and Economic Development STEB Data

Viewing local revenue concerns for 2021-22 through the lens of both COVID and AV decline, those districts that are potentially in a position to be most impacted by AV decline could be those that have the greatest share of commercial property. The COVID-related economic downturn is will result in commercial property assessment appeals and other reductions.

Figure 15 below shows the commercial property AV relative to a school district's total budget. There are 94 school districts—just under 20% of all school districts—that have a commercial assessed value that makes up more than 12.5% of their total budget. These school districts stand the greatest chance of being negatively impacted by a commercial property-driven assessed value decline in 2021-22.

Figure 15: Commercial Assessed Value Relative to Total Budget



Source: School District GFB and PA Department of Community and Economic Development STEB Data

Another financial challenge that school districts are anticipating as they look ahead to 2021-22 is with regards to the Property Tax Relief Fund, which has consistently provided more than $500 million in property tax relief to homeowners annually. Funded with gaming revenue, continued COVID-related restrictions are likely to reduce the state revenue available to fund this property tax relief.

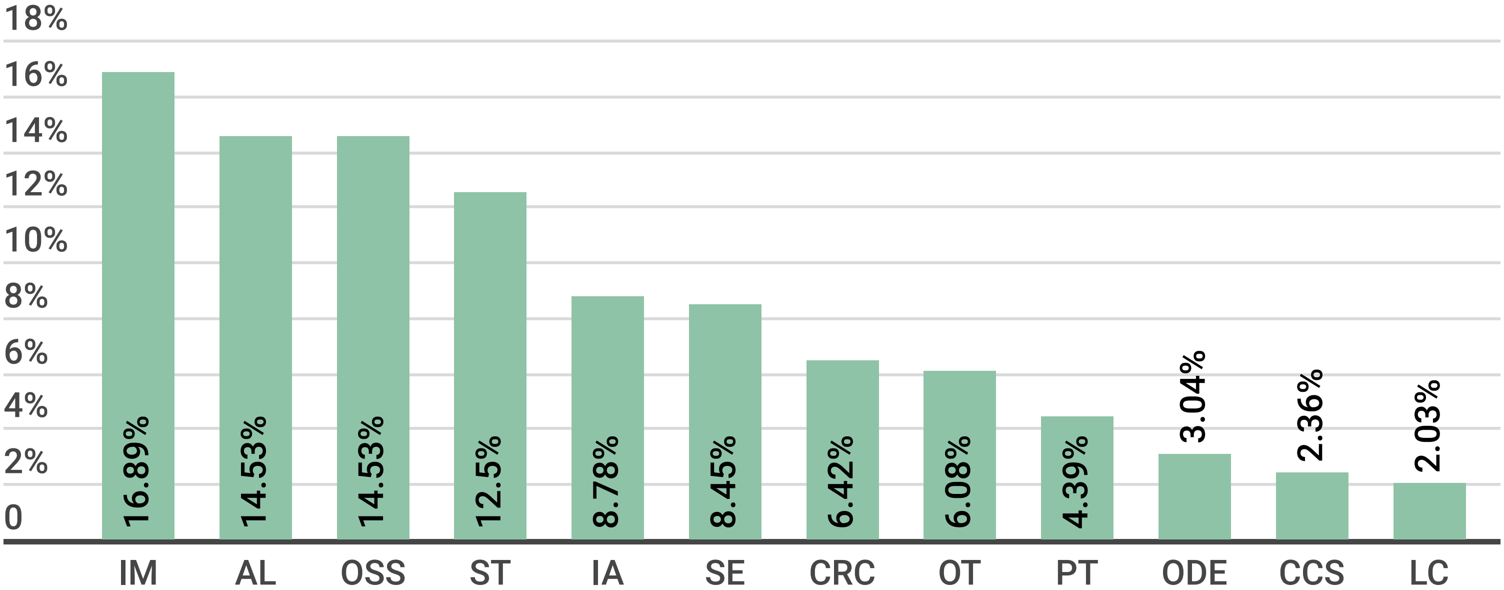
Lack of state funding to backfill any potential reductions in gaming revenue, will result in property tax increases across the commonwealth or massive school district budgetary cuts to make up for the lack of state property tax relief.

In addition to the budget concerns for 2021-22, we asked survey respondents to describe the greatest areas of educational or instructional program concern and delivery their districts face for the remainder of the fiscal year 2020-21 and for 2021-22 planning.

Our review of the open-ended responses to this question revealed eleven distinct categories of concern, of which there were four areas that dominated the overall responses. Like the question above, since many districts noted two or more concerns, they do contain some cross-over effect with multiple issue impacts.

Overall, Figure 16 shows that nearly 17% of responses indicated that a major instructional challenge was the ability to get to or achieve some sense of stability, balance and consistency in instructional delivery models. The historical disruption in educational program delivery is not a single moment. As districts moved from COVID onset and school closure to school reopening and COVID resurgence, trying to maintain consistency and stability within the ever changing environments remains very difficult. Similar and related, an additional 2% responded succinctly with regard to concerns about keeping in-classroom learning consistent as a single mode.

Figure 16: Major Instructional Challenges as Indicated By Survey Respondents



Order	Label	Description
1	IM	Balance, stability and consistency in instructional models
2	AL	Student learning gaps and achievment loss
3	OSS	Student struggles with online learning
4	ST	Teacher staffing training, shortages and absences
5	IA	Lack of internet access for students
6	SE	(Lack of) engaging students/keeping them engaged in all learning modes
7	CRC	Cost increases and lack of revenues: constricting ability to address student issues/affordability
8	OT	Other
9	PT	Technology access, cost & needs
10	ODE	Developing and expanding in-house on-line programs
11	CCS	Cyber charter cost and churn of in and outs
12	LC	Keeping in-person learning consistent

Source: School District Survey Responses

At 14.5% were two responses that, while they may contain some overlap, remain distinct enough to pull apart. First, survey respondents expressed concerns about addressing student learning gaps or achievement loss. With many factors impacting student learning, this is front and center on superintendent priority list of concerns to be addressed.

Further, another 14.5% expressed overall concern with students' ability and struggles with online learning. This concern was expressed regardless of whether it is cyber charter school learning, the district's own cyber program or a hybrid instructional model. This category was dominated by superintendent comments that online learning, no matter how good, is simply not a good full-time option for many students.

Our concern is the regression that is occurring in student learning over time due to a hybrid or full remote learning instructional model.

Survey Respondent

Trying to address the growing problem of some students falling behind via online programs may indeed be part of the mix, but it is not deemed to be a standalone fix. Coupled to some degree with the 14.5% online learning concerns was 3.0% of responses noting specific concerns for creating, building, expanding their own online programs. Many districts had online learning programs and options available, but they were not designed for, nor immediately scalable to reach all students, let alone effectively accommodate students that face challenges with self-directed online learning.

At 12.5% of the responses, teacher and instructional staff shortages come to the forefront, which is a common theme elsewhere in this report. Districts facing severe staffing hardships will find it very difficult to provide stability in program delivery or begin to address identified student learning gaps until staffing needs can be stabilized. Staffing issues and concerns were a dominant theme in responses.

In-person instruction has been recognized as the best option for learning, however, being 100% in-person has not been consistent. Going from remote learning to 50% alternate schedule will impact the learning of all children.

Survey Respondent

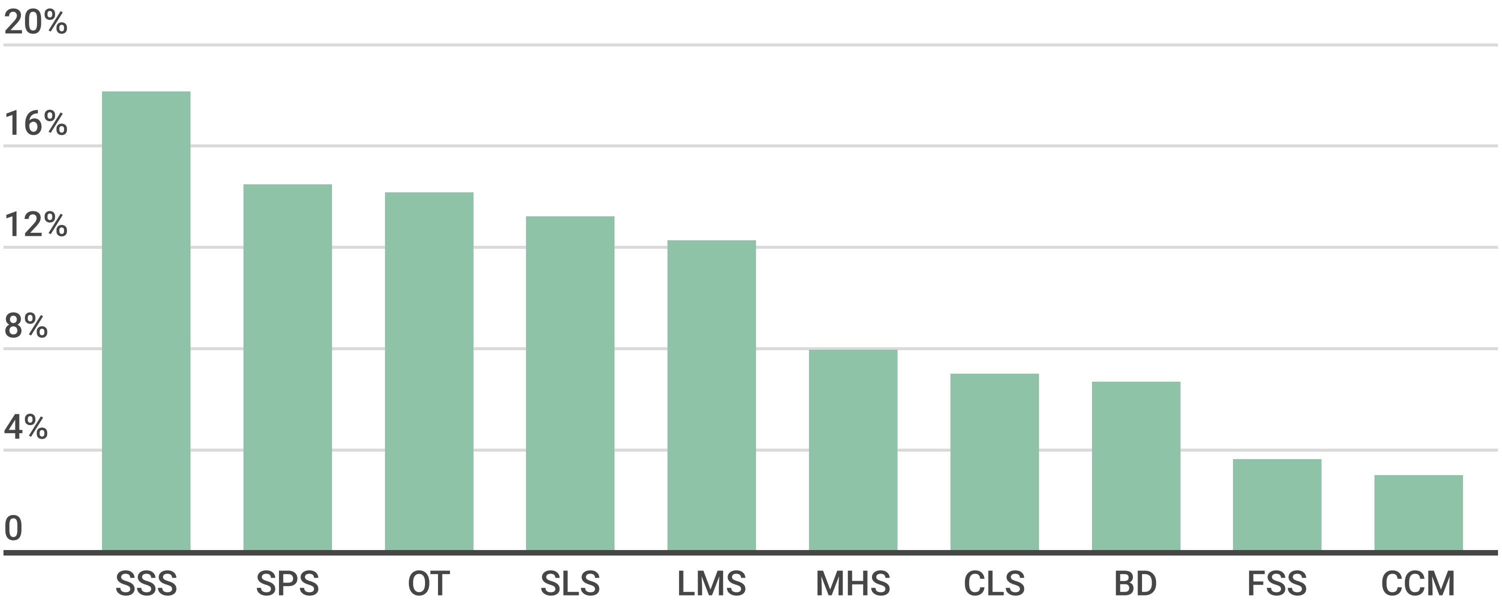
Lack of internet access, including the technology and equipment to provide it, represented nearly 9% of the responses, and this response was often included with a comment noting the inability to remedy the problem. On top of that, 4.4% of responses specifically noted concerns about district technology access or upgrades and the costs needed to accomplish this.

These responses, while related, do not effectively reflect how providing internet access is a completely different challenge among districts. In urban and suburban districts, internet cable and infrastructure may be widely available, so the challenge is to get access and the technology to students. In many rural districts, capable internet infrastructure does not exist even though they may have one-to one computer resources.

Our last open-ended question for our superintendent respondents asked them to describe the greatest area of support programs concerns their district faces for the reminder of the 2020-21 fiscal year and 2021-22 planning.

Our review of the survey responses resulted in nine major response categories. This question specifically targeted concerns regarding support programs that cross over operational support functions as well as instructional support functions. The results were not surprising.

Figure 17: Major Support Program Concerns as Indicated By Survey Respondents



Order	Label	Description
1	SSS	Staffing: shortages and availability across all support staff
2	SPS	Added needs for special education program supports
3	OT	Other
4	SLS	Finding ways to try to address student learning needs/learning gaps/at risk students
5	LMS	Provding the supports needed for many learing modes
6	MHS	Mental health issues/supports staff and students
7	CLS	Cyber and online learning supports across the spectrum
8	BD	Funding/expenditure pressures/deficit budgets
9	FSS	Providing food services for those who need it
10	CCM	Increased pressure on cleaning/custodial services

Source: School District Survey Responses

To a large degree mirroring the staffing shortage concerns that were highlighted in other questions, about 18% of the responses to this question expressed concern about staffing issues. Many respondents noted this concern was across-the-board in operational functions for custodians, food service workers, bus drivers, aides and other professional staff support areas.

Several of the responses targeted single support staffing issues specific to the district with regard to food service, custodians, or transportation. Almost all of the responses about support professionals noted lack of availability of nurses and mental health professionals. Responses to this question repeatedly noted that applicants for some of these critical positions simply do not exist.

Due to COVID, we have an unfilled contracted social worker and unfilled contracted psychologist positions that we desperately need to provide the necessary supports to our students, families, and special education department.

Survey Respondent

The second highest response was at 14.5%, expressing concerns for additional needs for special education programs. That critical need was followed by concerns regarding how to address student needs and learning gaps and how to help at risk populations. While there will be some cross over, responses clearly separated the special education concern from the wider concern over learning gaps and the increasing reality of a growing pool of more at risk students during the COVID interruption.

Many responses also indicated an overall concern for being able to address all of the needs and supports for the many instructional models districts are balancing and creating as the pandemic evolves. Specifically identified by nearly 7% of responses was a concern to scale, enhance and build online learning supports across the district.

Nearly 8% of responses noted significant concern for addressing mental health and related safety issues for both students and staff as the pandemic wears on. Food insecurity concerns were at 3.6% of responses and concerns about the ability to provide the proper cleaning, maintenance and custodial services were at 3.0%.

Items that fell into the Other category generally fell into district-specific internet and technology needs, transportation complexities and food service insecurity including costs and next moves for food service delivery.

Overall, with regard to cost drivers as school districts look ahead to 2021-22, concerns over historic and worsening cyber charter school tuition increases coupled with expressed concerns for both state and local funding challenges combine to stress school district finances. The unknowns that districts face on all fronts provides greater challenges as districts look to alter future resource allocations.

School district superintendents are looking to address growing concerns for special education students, growing at-risk populations, achievement gaps and severe staffing issues. Internet access and technology needs hamper the ability to scale-up not just existing programs, but also hinder enhancements to those programs. Addressing food insecurity and transportation complexities along with staff and student mental health concerns require resources of time, money and people all of which is in short supply. All of this is overlaid with each district's current financial position. Districts heavily funded by local tax base face different challenges than those heavily funded by the state as do those with reserves they can leverage, and those who have none.

Part IV: The Long-term Challenges

As school districts continue through the current school year and look ahead to next year, the challenges continue to be a mix of COVID-related revenue declines and expenditure increases on top of the mandated cost increases that stretch school budgets and drive property tax increases and program cuts each year.

Fortunately, as school districts look ahead, there is some short-term relief on the immediate horizon in the form of an additional round of federal funding for k-12 education. The funding package, which was signed into law in late 2020, is set to drive additional one-time federal funds to school districts for use on COVID-related expenditures from now until September 30, 2023.

The scope of this round of federal funding is exceptional, and at about $2 billion, it dwarfs the amount provided last spring. Generally, this additional federal funding can be used for the same COVID-related purposes in addition to being used for addressing learning gaps and learning loss and engaging in facility maintenance or repairs.

This additional federal funding provides some comfort for school districts in covering their immediate fiscal needs in addressing the continuing COVID impact next school year, and it is particularly critical given the financial challenges the state is predicting for 2021-22 and the related implications for state education funding. However, while much of the short-term fiscal stress is ameliorated by these additional federal funds, the long-term problems are certainly exacerbated.

Amidst the Great Recession, the American Recovery and Reinvestment Act (ARRA) provided states with significant stimulus funding, including funds for education. In Pennsylvania, those one-time funds were used to prop-up reductions in state education funding.

While school districts were scolded about not using the federal revenue for anything other than one-time use, because the funds were essentially back-filling state funding, it proved a significant challenge for districts to restructure their budgets and operations to avoid additional challenges when the funds went away.

When the funds did go away and there was not enough state revenue to replace them, school districts faced state funding cuts. Unfortunately, these cuts were most significant in those school districts that were most reliant on state funding. The neediest districts suffered the worst and the funding disparity across districts grew.

In scope, the most recent federal relief in both rounds of stimulus funding directed at schools is much more significant than the ARRA and Jobs Bill relief to school districts during the Great Recession by a factor of almost two.

Pennsylvania will revisit this conundrum shortly, with the stimulus funds running out in September 2023. And while we are hopeful that we have, collectively, learned our lesson about how to adjust state funding following the expiration of one-time federal assistance, with the state battling its own financial challenges and after potentially two consecutive years of level-funding education, it's not outside the realm of possibility—in fact it is likely— that circumstances could exist for history to repeat itself without action by state policymakers.

The reality is that without additional future state support (at least upon expiration of the federal stimulus funds) to begin to cover the increase in school district mandated costs (again, charter school tuition, special education and pension) that have been percolating underneath all of the COVID-related expenditure increases, school districts—and taxpayers—are worse off.

Failure to provide for consistent and sustainable state education funding increases following the exhaustion of federal funds, negatively impacts all 500 school districts and the taxpayers in those districts. Hardest hit are those school districts most reliant on state funding as well as those taxpayers in districts that are most reliant on local funding. When mandated costs for special education and charter school tuition grow each year, no additional state revenue for school districts means that some school districts are falling further behind just to cover their most basic expenditures while the burden on taxpayers is growing rapidly in others. We should no longer tolerate complacency in this area, and we need assurance that we won't further increase the gap between the haves and the have nots.

As school districts grapple with the future of education and how to sustain and enhance online programming to provide additional choice and individualized instructional opportunity at the district level, the state will need to step up to fill in the federal funding void and address the constant increase in mandated costs.

Property taxes, mandated costs and state funding are all different sides of the same conversation, and there is one comprehensive solution to provide predictability, sustainability and adequacy for school districts without over-burdening local taxpayers.

First, additional revenue must be generated at the state level for any property tax relief plan to be successful. This increase can be used to fund and sustain property tax relief to local taxpayers.

Second, the majority of any new revenue raised must be focused on providing property tax relief to homeowners. While we suggest that a portion of this relief be provided to all taxpayers across-the-board and another portion to increasing the relief available under the Property Tax and Rent Rebate program, homeowners should receive the bulk of any property tax relief that is provided. The mechanics of this are not complex, and can be accomplished via AV reductions.

Third, and most importantly, any property tax relief provided must be sustainable over time. The only way to do that is for the state to increase its investment to education, relieving the burden on the local property tax. By directing a portion of the new revenue raised to cover annual mandated cost increases for special education and charter school tuition, the property tax relief provided can be sustained over time. Special education and charter school tuition drive the bulk of property tax increases on an annual basis, so providing state funding to cover those increases mitigates the need for future property tax increases.

The pandemic didn't create the underlying education funding crisis in Pennsylvania; it simply exposed the extent of the funding disparity that exists across 500 unique districts and their communities. While federal funds will provide a welcome and needed temporary relief for school districts into 2021-22, there is no way out of the permanent cycle of school district and taxpayer stress unless federal funds are replaced, pandemic disparities are remedied, public education is reimagined and there is a fundamental change in the way the state funds education.

With no action, however, it's a race to the bottom, with the reincarnation of higher property taxes, cuts in personnel and reductions in educational programs. We've been there before, and we should begin now to protect schools, students and taxpayers from another round of the same. Many districts have no capacity to suffer through another round of across-the-board reductions and many property owners cannot continue to foot the bill for state mandated cost increases year after year.

We wish to thank the hundreds of school district superintendents and business managers that participated in our budget survey during one of the most challenging times in education history. The real-time data we received truly allowed us to understand the past, present and future fiscal and educational impacts of the pandemic.

We also wish to thank the William Penn Foundation for providing valuable support to assist our work in conducting, developing and disseminating our annual school district budget reports.