SCORE
State Collaborative on Reforming Education

Policy Memo

The COVID-19 pandemic has caused major disruption to education at all levels, and the potential impact on student outcomes will be felt for months and possibly years ahead. The SCORE series of COVID-19 Impact Memos analyzes challenges, examines potential responses, and highlights student-centered solutions.

COVID-19 Impact Memo 3: K-12 School Finance

Summer 2020

School Finance In Tennessee

Tennessee's school districts will face significant financial pressure as state and local governments navigate the COVID-19 public health crisis and the economic strain it has created. And for students, these resources are vital to learning and success. Research suggests that reductions in school funding negatively impact student achievement and other education outcomes.[1]

Tennessee ranks second among all states in its reliance on a sales tax as a source of state revenue, and sales taxes are highly sensitive to economic downturns as consumers reduce spending and travel.[2] Tennessee county governments provide their education funding from both stable property taxes and the more volatile local option sales tax. Combined with an uncertain economic future, district leaders will need to make student-focused decisions to preserve and deploy limited financial resources for the benefits of students in the months and years ahead.

COVID-19 Pandemic Impact

During the Great Recession of 2007-09, Tennessee's sales tax revenue dropped by 16.4 percent and took four years to return to pre-recession levels.[3] County-level revenue may take just as long or longer to recover. Economists predict that the economic impact of COVID-19 may be greater in length and severity than the Great Recession with the rapid pace of unemployment filings, an unclear timeline for consumer activity to return to normal, and yet to be resolved federal economic stimulus efforts.[4]

As policymakers and district leaders navigate these uncertainties, several financial trends are clear:

- **State resources will be stretched.** Tennessee's school funding formula sends more state dollars to higher-poverty districts, with state dollars accounting for almost half (46 percent) of total K-12 education spending.[5] In addition to declines in tax revenue, the state likely will have to spend more for public health and unemployment benefits. Tennessee was financially stable as it entered the COVID-19 crisis with a rainy day fund of more than $1 billion and revenue $600 million above budget.[6] But tax collections dropped 40 percent in April and with no end in sight to economic downturn, there will be increased demand on declining state revenue.

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- **State investment in education will be reduced.** Before its March recess, the Tennessee General Assembly limited increases in state spending. Of the $400 million in proposed new K-12 education investments this year, lawmakers kept $136 million for a bare-bones budget that may be further reduced when the General Assembly reconvenes in June.[7]
- **Local funding capacity will be limited.** State law requires 50 percent of local option sales taxes to go toward education funding.[8] Local revenues – particularly property taxes – tend to be more stable than state revenue, but many school districts already are exploring up to 10 percent reductions in their 2020-21 budgets.[9] When local fiscal capacity is weakened, it puts more burden on the state to maintain prior funding levels. Additionally, with almost all districts (135 of 147) funding educational positions beyond what the state funding formula covers, districts will face hard budget choices for 2020-21 and several years after.[10]
- **Federal stimulus funds will not cover the shortfall.** While the federal CARES Act designated approximately $575 million for Tennessee's education system in one-time funds, these funds represent less than 5 percent of the $11.92 billion the state spends annually on education.[11]

Looking Ahead: Opportunities For Strategic Resource Management

In light of the financial stress facing school districts, district and school leaders will need additional support to not only maintain operations but to innovatively meet the needs of students – who may experience significant learning loss from the disrupted 2019-20 school year and family-related stresses such as illness, death, or financial struggles. As leaders and educators begin planning for 2020-21 and beyond, the following recommendations may guide school districts in student-focused decisions about managing and investing limited resources.

Make student-focused investments in human capital*.* Labor costs constitute up to 80 percent of K-12 education spending.[12] To sustain student achievement, leaders must strategically manage human capital resources in the strained financial context, including:

- **Hire well, retain the best.** Research shows that teachers hired during an economic downturn are more effective at improving student learning on average.[13] Through robust and selective hiring processes, districts can ensure maximum return on investment for any new hires. District and school leaders can reduce the costs associated with turnover and retain highly effective educators through the flexibility introduced by Tennessee policies that discourage seniority-based layoffs and encourage performance-based tenure policies.
- **Maximize teaching capacity.** To help students overcome COVID-19 slide, districts will need to increase teaching capacity. With 12 months of teacher benefits already covered, leaders can prioritize CARES Act funding to provide stipends for the most effective teachers to provide vacation-time learning opportunities, engage in instructional planning, or lead high-quality professional learning for other teachers.[14]
- **Maximize other capacity for direct student support.** The pandemic pushed districts to rethink job descriptions for non-instructional positions as student needs changed. In some districts school-bus drivers have provided food delivery support or Wi-Fi extension services, and some hourly employees have been grading assignments and helping with student case management.[15] This kind of creativity can help schools facing potential pandemic-related disruptions direct human resources to advance student learning and well-being in 2020-21.

Empower school leaders with decisions, stakeholders with information. Americans trust school leaders more than others when it comes to financial issues, research indicates.[16] As school districts make difficult budget decisions and communicate these actions with families and stakeholders, school leaders' relationships and knowledge should be leveraged in these ways:

- **Empower school leaders to lead.** In addition to identifying district-level reductions, district leaders may encourage school-level spending reductions that empower principals to identify initiatives and investments that matter most for their students. School and district leaders could also collaboratively identify similar expenses that could be pooled together at the district level or negotiated across schools for lower pricing. With communications support from district leaders, school leaders can help cultivate community buy-in for districts' financial strategies.
- **Communicate costs clearly to all.** To make decisions more comprehensible to community members, quantify various programs under consideration into per-unit costs and with tradeoffs in mind. For example, people can better understand a choice between after-school programs and teacher positions when costs are explained in terms of the actual costs per student or per employee.[17] Additionally, research has shown that when teachers were faced with choices regarding pay compared to class size, planning time, and teacher aids of equivalent cost, they valued salaries more.[18]
- **Ground local financial plans in state and federal economic trends.** While the financial outlook remains fluid, districts can use revenue and budget forecasts to provide the guardrails for difficult community conversations. One strength of Tennessee's financial position relative to other states is its well-funded public pension system that benefits Tennessee's educators, reducing a large source of funding pressure that other states and districts will experience.[19] However, the scale and speed of broader economic trends such as unemployment filings and lost economic activity suggest that districts may face several years of financial pressure.

Conclusion

In response to the COVID-19 pandemic, Tennessee and local governments face enormous financial pressures that will impact school finance for at least the next three years. The decisions district leaders make as the economic downturn persists will reverberate for years to come. District leaders, educators, and community stakeholders will need to work together to continue advancing student outcomes while making the most of available resources.

Endnotes

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