



## TEMPERATURE CHECK: SCHOOL FUNDING AND THE CORONAVIRUS RECESSION



The coronavirus is a major threat to public health. In addition, as a major recession creeps up on the heels of the pandemic, the virus is threatening the well-being of the educational system.

“Depending on the length and severity, possible effects on districts will range from holding budgets fiscally neutral for the subsequent academic year to drastic budget cuts,” said NEPC Fellow [Anthony Rolle](#), Dean of the Alan Shawn Feinstein College of Education and Professional Studies at University of Rhode Island.

As Rolle explains, “Remember, as other economic outcomes decline and unemployment increases, sales tax, income tax, and public fee revenues will be decreased. If a recession persists, property taxes also will decrease depending on the recession’s effect on the real estate markets.” Without funding, schools will see declines in resources and corresponding declines in their ability to provide students with high-quality learning opportunities.

By late April, more than half of district leaders had already [reported](#) that they have made significant or minor reductions to spending during the current school year. And 60% already [expected](#) spending to decline in the next year – up from 43% a month earlier.

In a [new report](#) from the Albert Shanker Institute (ASI), NEPC Fellow Bruce Baker, a professor in the Graduate School of Education at Rutgers University, and co-author Matthew Di Carlo, a senior fellow at ASI, draw upon lessons from the Great Recession (2007-2009) to predict the risks that schools may face as the economy slows again.

Schools were already in a precarious position when the last great recession hit, and little has changed, the authors write. For example, they note that state and local revenue (the main sources of school funding) have been declining as a percentage of personal income for 25 years. And higher-poverty districts, which have greater levels of need and lower levels of local resources to draw upon, are typically funded at the same rate as wealthier districts, placing them in a perpetually vulnerable position. These patterns exist because of policy choices, and they can be changed; but the current situation is the result of longstanding policy decisions.

When the Great Recession hit, state and local K-12 education funding for school districts, adjusted for local labor costs, declined about \$500 per pupil by 2011. Funding then increased between 2011 and 2017 (the most recent year for which federal data is available), but only by \$250 per pupil, leaving the average district worse off than it was before that recession. High-poverty districts were hit particularly hard, particularly in certain states. Oklahoma's education spending, for example, declined a jaw-dropping 17% between 2009 and 2017 (adjusted for labor costs and weighted by district-level enrollment).

“The revenue and spending declines had real effects in schools, including a drop in teacher staffing ratios,” Baker and Di Carlo write.

The 2009-10 State Fiscal Stabilization Fund (SFSF), which was part of the American Recovery and Reinvestment Act (often called the “stimulus package”) did help, Baker and Di Carlo write. However, it lasted just two years, creating a “fiscal cliff” that ended abruptly, resulting in drastic cuts that could not be spread out over time. In addition, states were allowed to cut state aid to districts during the stimulus period and backfill it with stimulus funds. This disproportionately damaged higher-poverty districts, which tend to rely more on state funding because their localities have fewer resources.

Drawing upon lessons from the Great Recession, Baker and Di Carlo offer the following eight recommendations for tending to the health of public education as the economy reels from the impact of the pandemic:

- The K-12 system needs funding above and beyond the roughly \$13 billion provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was approved in March.
- The federal funding should be distributed in phases to head off the sharp cuts that occurred when federal stimulus aid abruptly ended.
- Federal funding should be distributed equitably, based on local capacity and student needs.
- Equity should also be taken into account when determining which states are eligible for federal funds. For example, states that receive the money should not be permitted to reduce state funding for higher-poverty districts more than it is reduced for wealthier districts.
- States should increase taxes or broaden tax bases to make up for the permanent losses that schools experienced after the Great Recession.

- States should build up budget reserves even if it means increasing taxes.
- State funding formulas should be altered so that they are “progressive” – i.e. based on capacity and need.
- State education funding should not rely too heavily on one single source of revenue. Rather, to hedge risks, it should be balanced, drawing from sales, income, and property taxes.

“The severity of the current crisis should, as in the human immune system, act as a wake-up call to strengthen public school finance not only so as to recover, but also to make us strong enough to withstand future crises,” Baker and Di Carlo conclude.

### NEPC Resources on School Finance and Funding

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