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EDUCATION COMMISSION OF THE STATES
Your education policy team.

Your Question

You asked for information about K-12 finance and recessionary periods. Specifically, you asked how states are responding to the COVID-19 pandemic-driven recession.

Our Response

In this information request we broadly cover the relationship between recessionary periods and K-12 education funding. In the first section, we explain how recessionary periods impacted K-12 education funding during the previous recession. In the second section, we provide state policy examples that illustrate some of the ways in which states have responded to the COVID-19 pandemic driven recession. And finally, we briefly touch on other policy considerations that can complicate the relationship between K-12 education funding and recessionary periods.

General Information on K-12 Finance and Recessionary Periods

K-12 education is funded through local, state and federal contributions. According to data from the U.S. Census Bureau, 46.7% of K-12 funding for the 2017-18 year was provided by state revenue sources. State governments are consistently the largest contributor to K-12 school finance. States typically rely on income tax and sales tax revenues to fund programs and these types of taxes are more vulnerable to recessionary periods than property tax, which is the primary revenue source for local governments. Given these revenue source realities, it is common for state education supports to decrease during recessionary periods. While it is challenging to speculate the degree to which the COVID-19 driven recession will impact K-12 education funding, it is plausible that funding changes this recessionary period will mirror changes that occurred in previous recessions. This section highlights the funding changes that occurred as a result of the 2008 recession. Additionally, this section provides some examples of states that did not follow the funding change pattern.

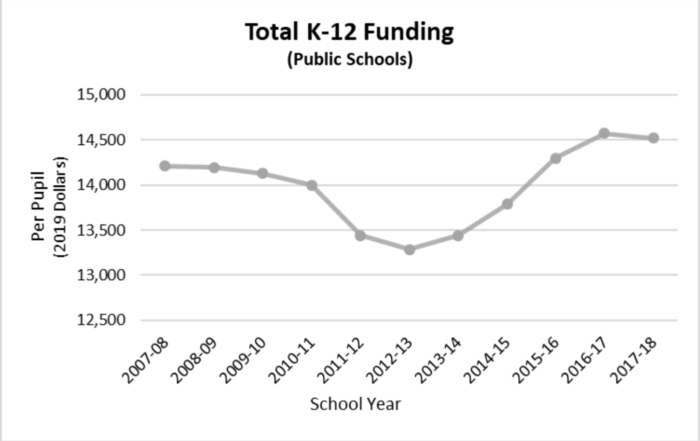
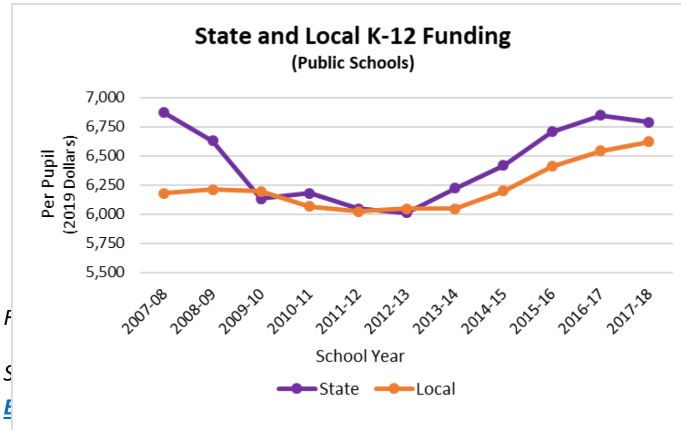


Figure 1 displays how total (local, state, and federal) K-12 funding support changed over the last decade, including the most recent recessionary period. In particular, you'll notice that the 2011-12 school year was the first year where average per pupil support in the United States declined significantly. One reason funding decreases were delayed was due to the federal stimulus that provided substantial financial support for K-12 education. In the 2009-10 and the 2010-11 school years, the federal government contribution peaked at slightly more than 12% of total K-12 revenues. The federal government typically contributes about 8%, so the increase to over 12% was substantial. According to an Ed Note blog post by the Learning Policy Institute, the CARES Act funding allocation for education equates to 1.9% of P-12 revenues. Some organizations, including Brookings, argue that additional federal support is necessary in order to maintain K-12 education funding.

Figure 2 displays how state and local K-12 funding fluctuated over the last decade, including how funding changed during the last recessionary period. The most significant decline in state support occurred in the first full year following the recession. Given when the COVID-19 pandemic driven recession began, some education finance policy experts anticipate that the 2021-22 school year will be the most challenging budget year.



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Of course, not all states reduced state support for K-12 education during 2008-09 and 2009-10. According to data from the U.S. Census Bureau, **Arkansas**, **Colorado**, **Indiana**, **North Dakota** and **Ohio** all increased state-level per pupil funding levels over those years even when adjusted for inflation. Whether a state experiences declines in state K-12 funding support in response to the COVID-19 pandemic driven recession will depend largely on the state-specific conditions. These conditions include how significantly the state's revenue sources are impacted by the recession, the amount in the state's rainy day fund reserve and the political support for maintaining state support for education. According to the Center on Budget and Policy Priorities, some states are facing significant declines from pre-COVID-19 revenue projects, while other states anticipate minimal change. Money for K-12 education can also be taken from reserves. Some states, like **North Dakota** and **Wyoming**, have significant revenue reserves in their rainy day funds that can be utilized to supplement declines in revenue.

State Policy Responses

Since the passage of the CARES Act, our state policy tracking shows most enacted K-12 finance legislation involved one or more of the following policies: appropriating CARES Act funds, reducing state spending on K-12 education for fiscal year 2019, and transferring remaining education funds from the previous fiscal year to the current one. The following policies enacted in **Utah** provide a good example of how many states immediately responded to the pandemic:

- S.B. 3001 reduces or provides supplementary funds for public education programs and higher education institutions or fiscal year 2020. Transfers fiscal year 2020 funds to supplement funds for public education programs and higher education institutions for fiscal year 2021.
- H.B. 4001 transfers $10,600,000 from the Education Fund to the State Board of Education - Minimum School Program - Basic School Program for fiscal year 2021.

After these initial actions, some states then began to allocate remaining state dollars to mitigate the uneven effects of the pandemic — particularly for underresourced schools and students. However, not every state could enact supplemental funding policies because of the uneven impact the recession has had on state budgets. Below are two common examples of state supplemental funding policies:

- **North Carolina** (H.B. 1071) notes that public schools in low-wealth counties are less likely to have the reserves necessary to provide for the staff development, digital resources, and other tools needed to facilitate new methods of instruction required by COVID-19 circumstances. The bill provides supplemental funding for low-wealth counties based on average daily membership to effectively respond to education impacts of COVID-19.
- **Oregon** (S.B. 1607) extends the sunset for small school districts to receive supplemental grants until fiscal year 2021. The Small School District Supplemental Fund would have stopped allocating dollars in fiscal year 2020.

Besides supplemental funding policies, other states pursued new or changes to existing revenue streams to offset potential budget cuts. Some states looked at typical revenue streams, such as income and sales taxes, and proposed incremental tax raises. While states have total control over these revenue sources, they also maintain some discretion over revenues raised by local governments. Below are examples of states modifying state and local revenues:

- **Colorado** (H.B. 20-1427) incrementally raises the cigarette tobacco and nicotine products tax beginning fiscal year 2020. Revenue raised from this tax will be allocated to various education line items, like the rural schools cash fund and the preschool programs cash fund starting in fiscal year 2023.
- **South Dakota** (H.B. 1042, H.B. 1043, S.B. 170) raises the maximum tax levies for school districts' general education funds, capital outlay funds and special education funds. It also requires districts to contribute more local funds to qualify for state special education aid.

Finally, state policymakers had to consider how to handle student attendance and changes in enrollment during a time of widespread remote learning. Many states use the prior year's attendance to calculate the amount of funding a school receives. We saw states take two basic approaches: (a) suspend attendance counts this year, opting to fund schools based on last year's counts instead; or (b) modify their policies to encompass varied instruction methods (in-person, hybrid, remote). Here are a couple of examples of states employing these policies:

- **California** (S.B. 98) provides a hold harmless component for attendance calculations and requires local educational agencies to use average daily attendance for the 2019-20 school year ending Feb. 29, 2020, rather than through the expected school year; a prior executive order had made this alteration for some school districts, but this bill expanded eligible districts. Additionally, it outlines processes for collecting daily attendance in multiple distance learning, in-person instruction and blended learning scenarios.
- **Washington**: In the Reopening Washington Schools 2020 District Planning Guide, released June 11, the Washington Office of Superintendent of Public Instruction states that districts should expect to receive full allocation regardless of attendance format used: "In the 2020–21 school year, districts will be required to take attendance. OSPI will work with the Office of Financial Management and the Legislature to ensure districts receive their full apportionment even if districts are forced to build schedules that do not align with the historical practices of funding schools based on traditional attendance models" (page 28).

Other Considerations

As state policymakers begin to plan for the 2021 legislative session, they acknowledge many unknown factors will impact state budgets. For instance, the length of time required to roll out widespread vaccinations will influence the relative strength of the economy. Specific to K-12 finance, policymakers will face considerations we know to be associated with recessionary periods and pandemic education:

- **Enrollment and attendance**: For the states that **paused enrollment and attendance** counts this year — choosing to maintain funding levels from last year — how will they allocate funding to schools next year? We know some districts have seen their enrollments grow, but will they have a level of funding commensurate with increased student needs? Will states "**hold districts harmless**" if they suffer **declining enrollment**?
- **Increased need for services**: Students and families' need for education services and programs are counter-cyclical, meaning there is an increased demand for them during recessionary periods. For example, more students qualify for **Head Start** programs and **free and reduced-price lunch** programs. Will states prioritize funding their portion of these services?
- **Learning loss**: While students learning loss seems to be **less severe** than many thought in **April**, there are more students than usual who are behind in their learning. Education **researchers** and **advocates** have shown that the pandemic's effect on student learning is unequal, as students of color and those from low-income communities disproportionally struggle to keep up during remote learning. Will states have the resources to implement/expand **learning supports** for these students to **address learning loss**?

Other Resources

- Chalkbeat: **Across U.S., schools' worst budget fears have been avoided. No one's celebrating yet**
- Education Commission of the States: **COVID-19 Pandemic state policy tracking page**
- Education Commission of the States: **COVID-19 Series: Funding Equity**
- Education Commission of the States: **50-State Comparison: K-12 Funding**
- Education Next: **Funding Phantom Students**
- Education Week: **What Congressional Stalemate Over Relief Aid Means for Districts' Budgets** and other articles by **Daarel Burnette II**
- The Learning Policy Institute: **COVID-19 and State Education Budgets: The Story Behind the Numbers** and other pieces by **Michael Griffith**