



Financial Issues in the Reopening of Schools During the COVID-19 Crisis

June 2020



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The Council of the Great City Schools is the only national organization exclusively representing the needs of urban public schools. Composed of 76 large-city school districts, its mission is to promote the cause of urban education and to advocate for inner-city students through legislation, research, and media relations. The organization also provides a network for school districts sharing common problems to exchange information and to collectively address new challenges as they emerge in order to deliver the best possible education for urban youth.

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Council of the Great City Schools

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Table of Contents

- Overview 1
- Delivery Models for Improved Student Outcomes 2
- Revenue Strategies 3
 - Local 3
 - State 4
 - Federal 4
- Reductions and Reallocations 5
 - Operational Cost Reductions 5
 - Reallocations 6
- Conclusion 8
- Team Members 9



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Overview

Since the onset of the COVID-19 pandemic, school districts across the country have been able to save money because campuses were closed and operations were reduced (e.g., utilities, fuel, part-time salaries, overtime, substitutes, supplies, contracted services, etc.). At the same time, these savings were typically offset by unexpected expenditures for delivering remote instruction, providing off-site meal services, and supporting students and families. Nevertheless, most Great City School districts will have a positive fund balance at the end of the current 2020 fiscal year.

The challenge moving forward into the 2021 fiscal year and beyond involves the very real possibility of significant revenue declines and the need for districts to develop business strategies that—

- Support the district’s values, goals, and priorities.
- Reflect best- and worst-case scenarios in dealing with declines in income, property, and sales tax revenues.
- Identify and balance the costs of providing alternative levels of services that are not “business as usual” but that continue to *meet or exceed desired standards of instruction and learning and ensure the health and safety of students*; and reset public expectations so there is no surprise when these services are delivered.
- Increase effectiveness and efficiency in ways that reduce ongoing operating costs and result in savings that can be reallocated to help districts avoid insolvency and improve performance.
- Use data visualizations to communicate the implications of various fluctuations in revenues and expenditures in laymen’s terms, so school boards, senior leadership, district staff, and the public have a clear understanding of the near and longer-term financial conditions of the district.¹

The Council of the Great City Schools assembled a working group of senior managers with extensive experience in financial management in urban education to develop recommendations for financial strategies that would help districts accomplish these goals and remain financially viable, while allowing member districts to continue their focus on student learning in the midst of the coronavirus (COVID-19) pandemic.

1 “Planning for the FY 20-21 Budget”, School Board Workshop #2, May 12, 2020 prepared by Financial Management of the Broward County Public Schools; “Strategic Budget Development, Phase VII—Preliminary Recommendations”, Special Board Meeting of the Board of Education, Fresno Unified School District, May 13, 2020; and “COVID-19 Budget Update”, Presentation to Economic Council by Mike Burke, CFO, School District of Palm Beach County, May 13, 2020.

Delivery Models for Improved Student Outcomes

The key to success in managing possible financial shortfalls due to the COVID-19 pandemic will be the ability of districts to align their decisions to the values, goals, and priorities of competing delivery models proposed by Education Resources Strategies (ERS) in their guide entitled *The Strategic CFO*.² These models articulate various strategies for providing remote instruction, face-to-face instruction, and hybrid instruction. In addition, the [Government Finance Officers Association](https://www.gfoa.org) (GFOA) has pointed out that the balancing act among competing models is particularly challenging when there are significant declines in revenues and when budgets “should be formulated in a way that is data driven and results oriented.”³

In order to develop and provide achievable and affordable service-delivery models that address their values, goals, and priorities, districts should—

- Assemble a cross-functional instructional team to identify a delivery model, e.g., virtual, hybrid, blended, or traditional, which meets standards of instruction and learning that improve student outcomes.
- Create a cross-functional management team to develop a workplan to ensure the health and safety of students by preparing, responding to, and mitigating the presence and transmission of COVID-19 on district properties.
- Involve the Chief Financial Officer in developing models that are aligned with potential revenues (e.g., share constraints) so time is not wasted pursuing options that are cost prohibitive or unsustainable.
- Identify service mechanisms and activity-based cost estimates for each level of service that roll up to the total cost of ownership (ToC), including expected outcomes (ROIs) for each of the models.
- Recognize that the limited time available to implement the models by the reopening of schools in the fall will not allow for perfection, but will start a process of continuous improvement, allowing districts to adapt and respond to changing conditions (e.g., meeting student needs by moving seamlessly back and forth from classroom to virtual instruction) within the framework of the chosen instructional model.

² https://www.erstrategies.org/tap/the_strategic_cfo

³ <https://www.gfoa.org/balancing-the-budget-part1>

Revenue Strategies

Local

The adequacy of an unrestricted general fund balance is particularly important since school districts will be subject to unanticipated changes in their financial condition caused by volatile income, property, and sales tax revenue sources and potential reductions in state aid and federal funding.⁴

To have a cushion in one's unrestricted general fund balance, districts should create or review their current fund balance and reserve policies to ensure that there is—

- A clear articulation of the level of unrestricted fund balances that should be maintained in the general fund for general accounting and budgetary purposes.
- A framework and process for how the district can increase or decrease the level of unrestricted fund balance over a specific period.
- Broad guidance for how resources can be directed to replenish the fund balance should the balance fall below a prescribed level.
- Clarity on what portion of reserves could be used and the time over which it can be used to compensate for declining revenues to help manage the district through the financial stress caused by the COVID-19 pandemic.

Furthermore, districts should consider—

- Sweeping all available fund balances into one account, such as an Assigned Fund Balance, so there is a lump sum of money that can be used on one-time expenditures or over a planned period.
- Projecting reductions in funds generated from school food services, student fees, after school programs, facilities rentals, etc.
- Leveraging the resources of corporate, civic, and association partnerships in a communications campaign that sends the message that investments in schools support the well-being of students for the benefit of the entire community.

⁴ GFOA recommends, at a minimum, that regardless of size, districts should maintain an unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. Furthermore, in the current COVID-19 environment, a district's situation may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level.

State

Districts should anticipate impacts on their budgets resulting from state-revenue shortfalls and—

- Provide Boards of Education and senior leadership with an estimate of the negative implications if COVID-19 inflicts an unprecedented amount of stress on the state government that results in a reduction of district funding from state revenue streams.⁵
- Revisit the 2007-2009 Great Recession to understand the lessons learned by your district when states reduced education funding and what strategies you used to manage and mitigate the impact of these reductions.
- Project potential fluctuations in enrollment- and attendance-based state aid due to parental and student preferences or the dislocation or consolidation of extended families caused by unemployment.

Federal

Congress has approved \$16.5 billion for Elementary and Secondary Education through the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The funds go directly to states and reach school districts through the Title I formula. The legislation authorizes—

- \$13.5 billion of which 90 percent goes to local education agencies, with the remaining 10 percent left at the state level for “emergency needs.”
- \$3 billion that state governors, at their discretion, can allocate as emergency support grants to local educational agencies and institutions of higher education that have been significantly affected by COVID-19.

Districts should revisit the 2007-2009 Great Recession to fully understand and apply the strategies and lessons learned from the administration of the American Recovery and Reinvestment Act (ARRA) funds during the Obama administration to ensure they get maximum benefits from the CARES Act. For example, districts should—

- Understand both federal and state guidance on how CARES Act funds may be allocated and spent, and the reporting requirements tied to the expenditure of funds.
- Designate a finance department staff member as the point person to ensure that data are tracked, collected, and organized to justify expenditures of CARES Act funds before reporting or compliance requirements come into effect.
- Identify the factors your state uses to allocate funding to ensure data used for student poverty measures are current and accurate, and that funds that go to entities outside the district are recognized.
- Understand that although Medicaid reimbursement rates have increased during the current health emergency, districts’ billable services may be decreased if providers cannot connect with students or deliver services remotely.
- Understand whether the supplanting rule *and/or any other compliance requirements* apply, and if so, how they apply to your district. It should be noted that—
 - There is significantly more flexibility if school-wide projects are approved across the district.
 - Both the Elementary and Secondary School Emergency Relief and the Governor’s Emergency Education Relief Funds are subject to equitable services requirements,
 - Due to U.S. Department of Education guidelines, a district might plan for a greater share of stimulus funds to flow to private schools than is the case under the Title I program. (Pay attention to how this issue is resolved since there are likely to be challenges to this rule.)

⁵ Moody’s Analytics Stress-Testing States: COVID-19, April 14, 2020

Reductions and Reallocations

Operational Cost Reductions

Districts should identify operational processes, including specific activities, steps, and procedures, that govern how its resources are used and that could be redesigned to cut costs. Districts should consider—

- Revisiting the functional organizational structure, which could be reorganized with a cross-functional program management office of senior leadership, functional managers, and staff who are competent, credible, and authorized to rethink and redesign the overall core business processes and workflows that could cut costs and better align allowable expenditures with district priorities and plans.
- Maximizing the full functionalities of the district’s various technologies and their interoperability, e.g., the Enterprise Resource Planning (ERP), Human Resources Management (HRM) systems, to streamline workflow processes.
- Eliminate the use of manually intense, inefficient, and outmoded processes and sub-processes, as well as specialized and fragmented tasks such as—
 - Delivery of pay checks by “snail mail” to schools versus requiring direct deposit.
 - Using numerical factors, e.g., walking distances for students eligible for transportation services.
 - Funding and personnel expenditures where “exceptions” have become the rule.
- Seize easy “wins” with quick cost reductions that could be reallocated to preparing administrative offices, schools, and classrooms for the 2021 school year. These might include—
 - Establishing a purchasing-exception committee to review the propriety and necessity of purchases over a certain threshold, even if appropriations were previously approved by the Board of Education.
 - Removing delegated authority for contract approvals and requiring approval by the Chief Financial Officer for all significant district commitments.
 - Entering into cooperative purchasing agreements with the city, county, or state to maximize the most favorable pricing for commodities.
 - Making significant shifts in current budgeting assumptions and practices, e.g., a funding system where dollars follow students based on objective and measurable characteristics.
 - Reducing funding for internal service funds like workers compensation and general liability, effectively reducing those reserve levels while not impacting the district’s credit rating.
 - Delaying or deferring textbook, curriculum, and instructional software adoptions.
 - Delaying replacement schedules for the entire fleet of school buses, support vehicles, and certain technology equipment.
 - Renegotiating major contracts to reflect reduced revenues.

Salaries, health care, and retirement benefits—which are major cost drivers in school districts—offer the greatest challenges, but they provide the greatest opportunities for reducing costs and reallocating savings. The following are areas where there are opportunities that could be taken advantage of—

- Use professional demographic projections to identify the actual student enrollment anticipated for the reopening of the 2021 school year and right-size the administrative, instructional, and support staff to support the new instructional delivery model; and adjust the staffing required to meet changes in enrollment as the instructional model evolves.
- Freeze all non-classroom and non-essential classroom positions and empower a Position Control Review Board with the authority to review and approve requests for exceptions to the freeze.⁶
- Freeze all non-collective bargaining salaries, bonuses, and promotions, and renegotiate any scheduled automatic step increases.
- Establish city- or district-wide parameters for negotiation of all collective bargaining contracts that are consistent with the district’s financial ability to support staff.
- Collapse central office management and office positions that have been vacant for six months or more.

Reallocations

Districts are currently in the process of developing strategies and plans for the reopening of the 2021 school year. These plans include judicious expenditures that were not budgeted in FY 2020 for delivery models that *meet standards of instruction and learning and ensure the health and safety of students*.

Some of these expenditures (e.g., enhanced cleaning, equipment, supplies, and labor costs to prepare buildings and classrooms for students and staff members) might be offset by savings from reduced service needs caused by COVID-19. Funds from the CARES Act could also be used to help offset these costs, including—

- Expenditures associated with modifications to instructional delivery models in order to meet the programmatic needs of those models.
- Costs associated with preparing, responding to, and mitigating the presence and transmission of COVID-19 on district properties.
- Fluctuations in state revenues.

For the longer term, however, districts may need to fine-tune and, in some cases, restructure and reengineer their organizational and management approaches to achieve efficiencies and generate cost savings⁷ that would sustain the programmatic needs of the models selected to improve student outcomes.

Based on over 300 reviews that the Council of the Great City Schools’ Strategic Support Teams have conducted in over 60 member districts, there may be opportunities to better manage expenditures by requiring that—

- Major initiatives, programs, and projects are supported by detailed business or action plans to guide the work.
- Milestones, cost drivers, target completion dates, and people responsible for completion of the work are requirements for allocating resources.

6 No position is filled without this board’s authorization, and Human Resources cannot move forward with a hire and Payroll cannot grant access to the payroll of any individual or any increase in salary without this approval.

7 The Council’s *Performance Management and Benchmarking Project* establishes a common set of key performance indicators in a range of school operations that can be used to benchmark and compare performance, improve operations, increase efficiencies, and reduce costs. These indicators should be used in districts’ planning processes.

- Resource allocations are based on evaluations of program effectiveness, cost/benefit analyses, or returns on investment.
- Administrative structures are periodically reviewed and adjusted, and reporting lines are matched to assigned functions and responsibilities so there is accountability in meeting programmatic goals.
- The right people with the right skills are placed in the right positions to do the required work.
- Formal cross-communications channels are in place and used to coordinate plans for major projects.
- Program management techniques are used to develop, build consensus around, and monitor strategies and initiatives, as well as to resolve issues.
- Performance metrics are used to benchmark, compare, and improve operational performance to increase efficiencies and reduce costs in meeting programmatic goals and objectives.⁸
- A vigorous follow-up process is in place to determine reasons why efforts to initiate projects and strategies are unsuccessful.

⁸ The Council's *Performance Management and Benchmarking Project* establishes a common set of key performance indicators in a range of school operations that member districts have used for a number of years to improve efficiencies and save money.

Conclusion

Collaboration and teamwork are an essential component of navigating a crisis of this magnitude. No one person has all the answers, and the challenges associated with COVID-19 are truly unprecedented. Chief Financial Officers must not only revamp budgets as revenues plummet but help guide the creation of new education delivery options for students. The Council of the Great City Schools will continue to provide a forum for these discussions and facilitate the development of shared strategies in a collegial fashion. The ongoing sharing of individual experiences and work products will no doubt benefit the whole group. We are in this for the long haul and look forward to working together to ensure the Great City Schools not only survive this pandemic but rise to the challenge of serving our students successfully in this adverse environment.

Team Members

Co-Chairs

Mike Burke is the Chief Financial Officer for the School District of Palm Beach County, Palm Beach, Florida. He is responsible for the District's Financial Management and Information Technology division, which includes Accounting, Budget, Enterprise Resource Planning (ERP), FTE & Student Reporting, Purchasing, Risk & Benefits Management, and Treasury. Mr. Burke is Past Chairman of the Florida School Finance Council, which is sponsored by the Florida Department of Education and provides input to the Commissioner of Education on various funding issues.

Nicole Conley is Chief Business and Operations Officer for the Austin Independent School District, Austin, Texas. For the last decade, she has been responsible for managing a nearly \$3.5 billion budget and capital program. She leads and manages the district's business and operations division, which comprises more than 1,600 team members and includes finance, as well as the \$2 billion bond program, construction management, facilities, HUB program, nutrition and food services, purchasing, service center, transportation, and warehouse operations. Ms. Conley was appointed by the Speaker of the House to serve on the Texas Commission on Public School Finance, whose work culminated in an historic \$11.6 billion state investment in public schools.

Judith M. Marte is the Chief Financial Officer for Broward County Public Schools and the former Chief Financial Officer of the Miami-Dade County Public Schools. She began her career at a large CPA firm in Boston where she worked in auditing and consulting services. Ms. Marte received her MBA from University of New Hampshire and her Bachelor of Science in Business Administration (Accounting) from Merrimack College. Ms. Marte was the 2016 recipient of the Council of Great City School's Award for Innovation and Excellence.

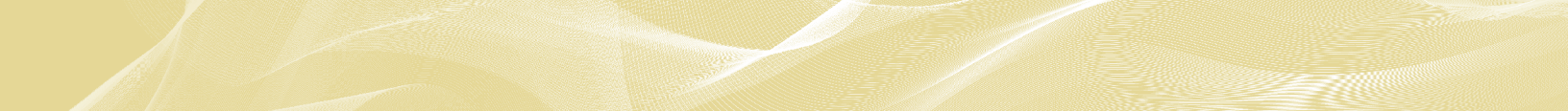
Ruth Quinto is the Deputy Superintendent and Chief Financial Officer for the Fresno Unified School District, which is the third largest district in the state of California. The district operates 104 schools, serves 74,000 students, and is supported by approximately 15,000 full and part-time employees. She has served as the District's Deputy Superintendent and CFO for over 14 years and was recognized for her work when Fresno Unified was the recipient of the Council of the Great City Schools Award for Excellence in Financial Management. Prior to joining Fresno Unified, Ruthie served as City Controller for the City of Fresno for four years and served as the Assistant City Treasurer/City Controller for the City of Moreno Valley for four years.

Ron Steiger is the Chief Financial Officer of the Miami-Dade County Public Schools, the largest school district in Florida and the fourth largest in the nation, with a student enrollment of 356,086. Prior to his appointment as the Chief Financial Officer, he served as the district's Assistant Chief Budget Officer and the Executive Director of the Office of Special Projects. Before focusing his career on urban education, Mr. Steiger was a Senior Consultant with Arthur Anderson.

Jessica Swanson is the Deputy Chief of the Office of Finance of the District of Columbia Public Schools. Prior to that, she served in several other roles at DC Public Schools, TNTP, and DC Prep, where she began her career teaching Social Studies to middle school students. A licensed teacher, Ms. Swanson holds a doctorate in Educational Leadership from the University of Virginia.

Coordinator

Robert Carlson, Director of Management Services, Council of the Great City Schools



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