



Strategic Financial Planning & COVID-19

September 2020



Our Objectives for Today

- Discuss external factors likely to impact districts in upcoming budget cycles
- Consider internal best practices related to budgeting and financial scenario planning
- Consider how policy can constrain spending decisions and potential benefits of increased flexibility

Agenda

Overview of External Financial Factors (20 minutes)

Internal Financial Management Best Practices (60 minutes)

Policy Constraints + Advocating for Flexibility (15 minutes)

Q + A (25 minutes)

School districts' financial health is dependent upon both external and internal factors



External Factors

- Federal, state, and local funding levels
- Philanthropic investment levels
- Policy decisions set by federal, state, or local authorities



Internal Factors

- Financial management practices and processes
- Annual financial decisions
- Long term financial decisions + investments

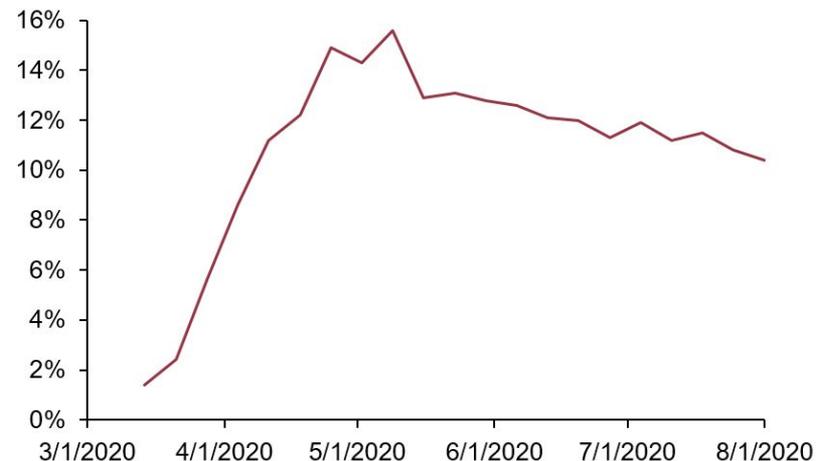
The impacts of COVID-19 on communities and schools is massive and ongoing

Schools are still reeling from the impacts of the virus, and economic impacts on individuals, families, and communities continues are significant

School Reopening Trends (as of August 27)

- Half (49%) of the nation's school districts will be returning to full in-person instruction this fall.
- Fully in-person instruction is far more likely in **rural communities** (65%), as compared to suburban (24%) and urban (9%) districts.
- **High-poverty districts** are more likely to start the year in remote learning. Students in poverty are also more likely to need more support socially, emotionally, and academically.

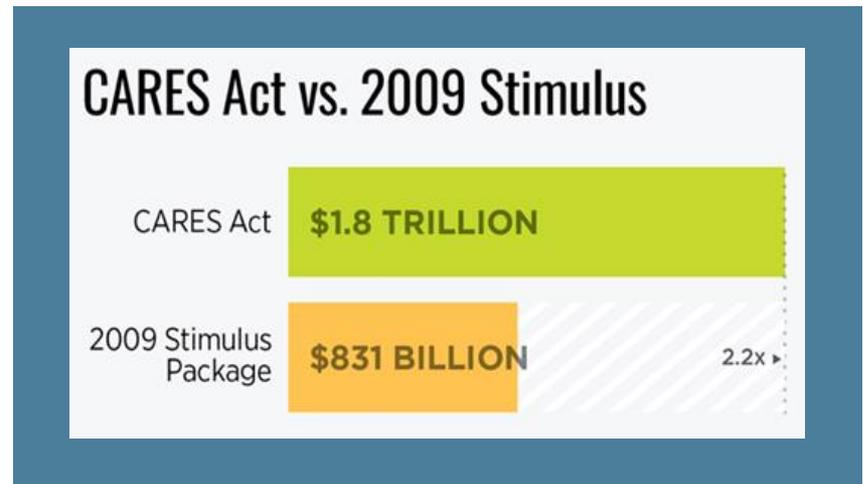
US Unemployment Rate



The US unemployment rate peaked near 16% in early May, and has been largely falling since the beginning of June.

Federal policymakers have marshaled significant fiscal and monetary efforts to address this crisis

- The CARES Act **more than doubles** the amount spent in the 2009 stimulus effort (so far).
- The federal debt is projected to **surpass 100% of GDP** for the first time since WWII.

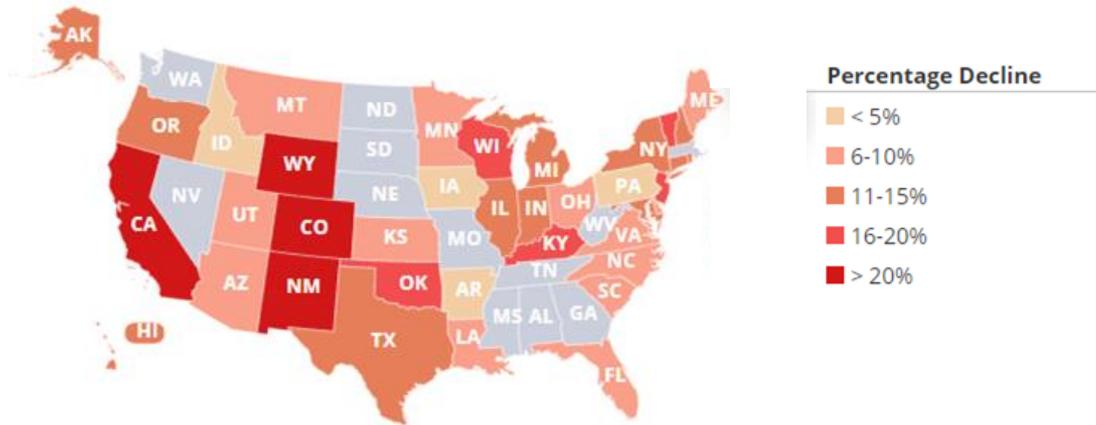


BUT

The total amount of funding allocated *for education* under CARES (\$30.8B) is **LESS** than one third of what was allocated for schools under ARRA in 2009 (~\$100B).

State's revenue shortfalls may account for significant portions of their budgets, putting public education at risk

Revised State Fiscal Year 2021 Revenue Declines to Date (9/1/2020)

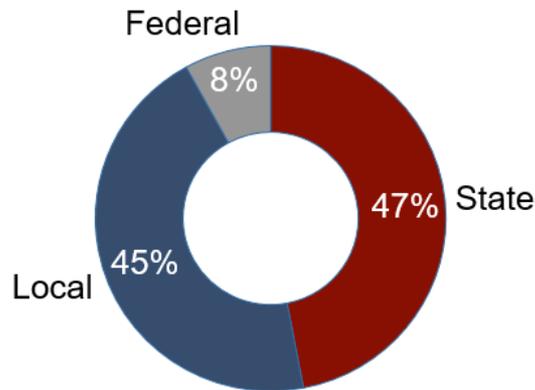


- During the Great Recession, state revenues declined by approximately **\$70 billion**.
- This spring, Moody's Analytics estimated that without additional federal aid, state and local budget shortfalls will total roughly **\$500 billion** over the next two fiscal years.
- This makes estimates of potential state budget deficits **SEVEN TIMES** as large as the Great Recession.
- Shortfalls of these magnitudes will put **funding for many education programs at risk**.

While federal stimulus helps, schools will experience significant fallout from declining state revenues

State and local tax revenues provide the **vast majority of funding** for public schools...

... *and* **state and local tax revenues may be significantly impacted** by COVID-19.



National average public school revenues by source, 2016-17

Factors Impacting State/Local Revenues

- State revenues rely heavily on sales taxes (48% of total) and income taxes (42% of total), **both of which are volatile** in an economic downturn.
- Unlike the federal government, **states cannot spend more than they take in** so reduced revenues must translate to cuts in spending
- Local revenues rely mostly on property taxes, which are more stable in a downturn. But local revenues are not distributed equitably across districts. Often districts with the most need have the least access to these funds.

The **timing and magnitude** of these impacts will **depend on local context**.

There is still a great deal of uncertainty related to external factors that will shape the financial picture for districts

Key Uncertainties



Additional Federal
Stimulus

The House and Senate are deadlocked on a new round of funding. There is very little certainty around how much, if any, additional federal funding may come at this point.



Magnitude of State
+ Local Revenue
Shortfalls

State and local budgets will be decimated by reduced economic activity, particularly in states that depend heavily on tourism and sales taxes. Timing and magnitude are not yet known.

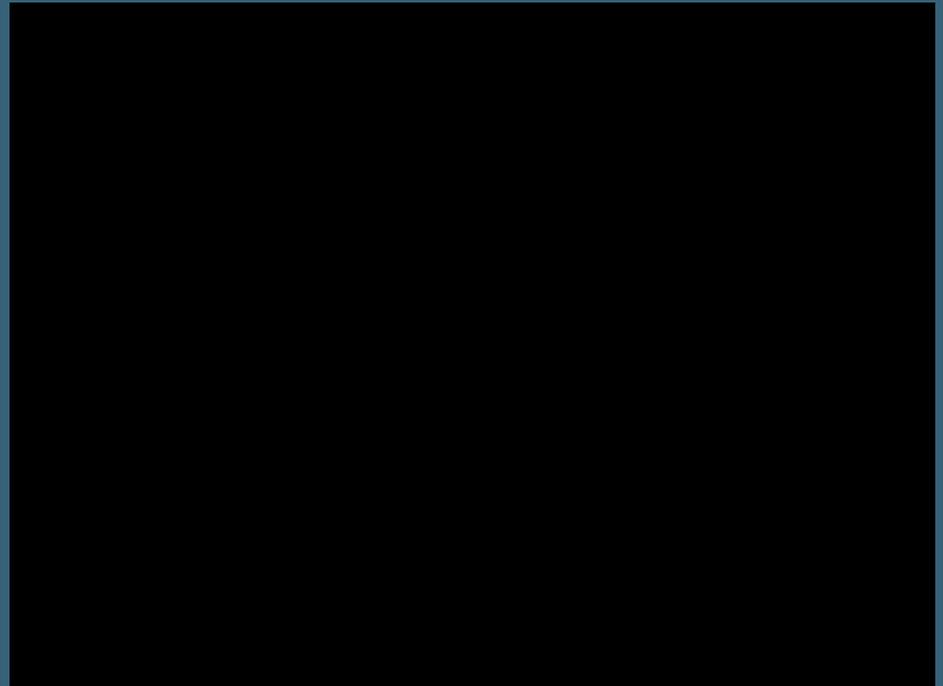


Cost of Fund the
“New Normal”

School systems will need to support public health measures and prepare for continued impact operationally and instructionally. The total associated cost is unclear.

Let's hear from the Chiefs for Change network...

**How do you
anticipate
COVID-19 will
impact the
financial state
of your district?**



Derek Richey, Chief Financial Officer of Cleveland
Metropolitan School District

Agenda

Overview of External Financial Factors (20 minutes)

Internal Financial Management Best Practices (60 minutes)

Policy Constraints + Advocating for Flexibility (15 minutes)

Q + A (25 minutes)

Given these *external* factors, it is more essential than ever for leaders to engage in strong *internal* financial planning



External Factors

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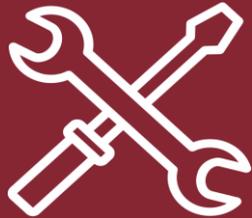
Internal Factors

- Financial management practices and processes
- Annual financial decisions
- Long term financial decisions + investments

While local context varies, there are a few common principles of strong financial planning

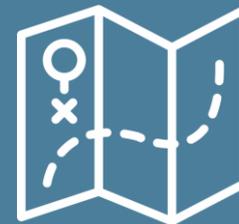
Principles of Strong Financial Planning

1



Enabled by Strong
Processes + Tools

2



Aligned to District Strategic
Priorities

Adhering to these principles will allow your team to make **spending trade offs** that are **strategic + intentional**.

Principle 1: Strong financial plans are enabled by both budgeting and financial scenario planning

	Budgeting Process	Financial Scenario Planning
Level of depth	<ul style="list-style-type: none"> • Detail-oriented • Tracks to reality 	<ul style="list-style-type: none"> • Big-picture, high-level • Simplified version of reality
Time horizon	<ul style="list-style-type: none"> • Short-term: Annual with month-by-month forecast 	<ul style="list-style-type: none"> • Medium/long-term: Typically multi-year (3-7 years is common)
Primary uses	<ul style="list-style-type: none"> • Transforming annual priorities into concrete resource allocation decisions • Establishing clear departmental budgets for oversight by leaders • Enabling progress tracking, accountability, and real-time financial decision-making • Monitoring of overall financial health through direct mapping to general ledger, or chart of accounts 	<ul style="list-style-type: none"> • Longer term decision-making in district design (e.g., facilities footprint, compensation, staffing ratios) • Opportunity assessment and analysis of the cause and effect of major decisions • Scenario planning (exploring a range of options and how they flow through to inform a more detailed annual budgeting process)

For both processes, there are consistent best practices *and* particular considerations driven by the impacts of COVID-19.

Best Practices for District Budget Processes

General Principals

Strong budgeting processes should *always* be...

- **Inclusive:** Budgeting processes should consider multiple perspectives and provide opportunities for input.
- **Transparent:** The system should be easy to follow, with clear deadlines and decision points.
- **Predictable:** Stakeholders should be able to anticipate deadlines far in advance and plan accordingly.

COVID-19 Considerations

During COVID, budget processes will need to be even more...

- **Responsive:** Processes may need to support decision-making outside of normal budget cycles in response to further cuts or new spending needs.
- **Nimble:** These systems should support decision-making without creating unnecessary complexity in an exceedingly complex time.

Best Practices for District Financial Scenario Planning

General Principals

Strong financial modeling should *always* be...

- **Clear:** Strong models clearly identify major cost drivers and revenue assumptions in a way that illuminate the impact of decisions.
- **Accurate enough:** Reflects current reality closely but not necessarily down to the dollar.
- **Flexible:** Models should also allow you to identify assumptions and then adjust based on possible scenarios.

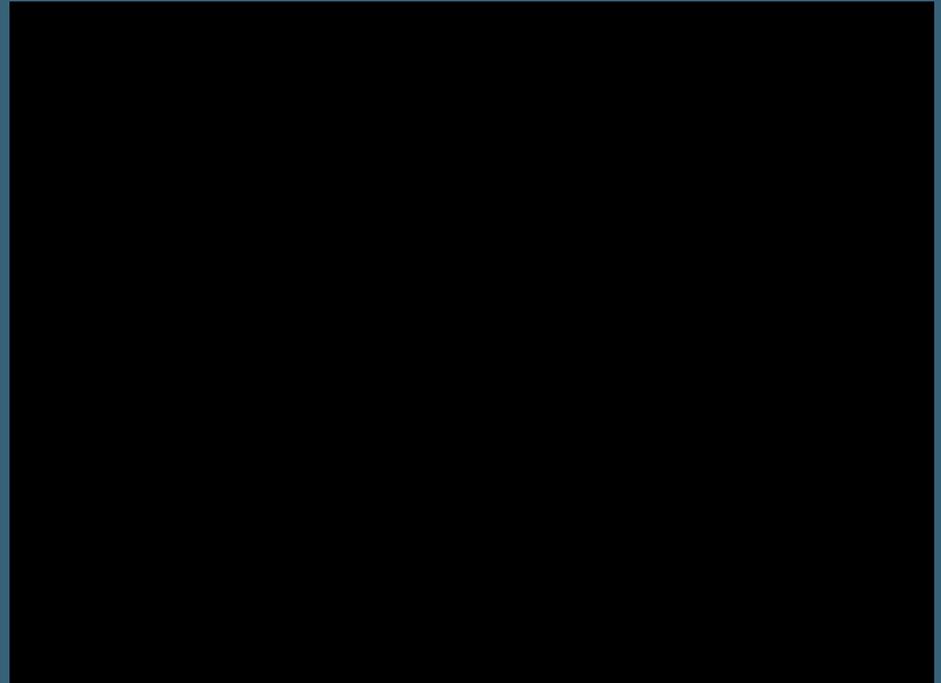
COVID-19 Considerations

During COVID, financial scenario planning will need to be even more...

- **Elevated:** During significant disruption, financial scenario planning is more important than ever.
- **Scenario-Based:** Districts need to map out different versions of the future (including a worst case) and plan for a range of outcomes.
- **Regularly Updated:** As new information becomes available, models should be regularly updated.

Let's hear from your Chiefs for Change Network...

**How do you use
financial
scenario
planning to
prepare for the
financial
impacts of
COVID-19?**



Derek Richey, Chief Financial Officer of Cleveland
Metropolitan School District

Principle 2: Strong financial plans should be aligned to district strategic priorities

Examples from the Chiefs for Change Network

DCPS invests in highly competitive teacher compensation.

- *While we recognize that educators do not enter the field for monetary reasons, we feel it is essential to demonstrate – in the boldest way possible – how much we value the work educators do... Through IMPACTplus, outstanding DCPS educators are now being paid what they deserve.*



Philadelphia Public Schools invests in early literacy supports

- *“This year, we are investing significant Title I funding in proven interventions to support our early literacy Anchor Goal, including providing full-time literacy specialists to support instruction at 40 of our lowest-performing elementary schools.”*



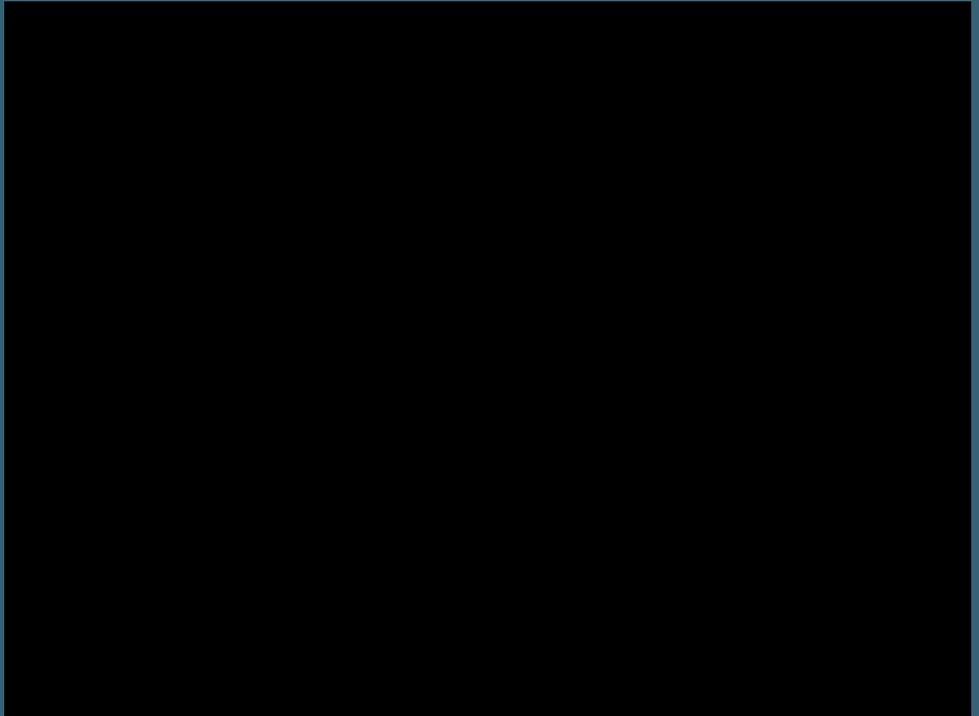
Baltimore City Public Schools invests in high quality curriculum

- *“Part of the work in support of learning across content areas, is bringing to bear highly engaging, standards-aligned, evidence-based, culturally-relevant curriculum for students K-8, as well as revising and updating curricular materials in the high school grades.”*



Let's hear from your Chiefs for Change network...

**How do you think
about the
intersection of
spending and
strategic
priorities?**



Nolberto Delgadillo, Chief Financial Officer of Tulsa
Public Schools

During COVID-19, many districts had to adjust their spending plans to address short term needs

Examples from the Chiefs for Change Network

Charlotte-Mecklenburg Schools will provide family meals kits

- *Charlotte-Mecklenburg Schools introduced a meal bundle program that will enable students to get free meals. With **CMS Eats at Home**, families can preorder meal bundles to be delivered once weekly or for pick up at one of 40 CMS sites.”*



Denver Public Schools invests in HVAC system upgrades

- *“The school board on Thursday unanimously approved \$4.9 million in HVAC upgrades. The district will contract with seven companies to complete the work, which will include assessing HVAC systems at more than 150 school buildings, making necessary repairs and upgrades, cleaning the equipment, and upgrading air filters.”*

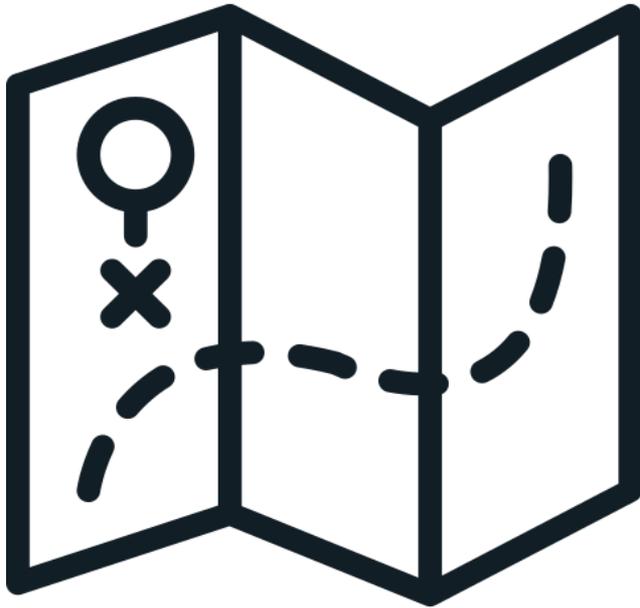


Chicago Public Schools ensures device access and connectivity.

- *“To ensure every CPS student will have a high-quality digital experience learning at home this fall, CPS will provide computing devices to children who need one. And through **Chicago Connected**, more than 100,000 families from limited-income backgrounds will be able to get high-speed internet at no cost.”*



Despite these short term challenges, districts are still making spending choices aligned to the long-term vision

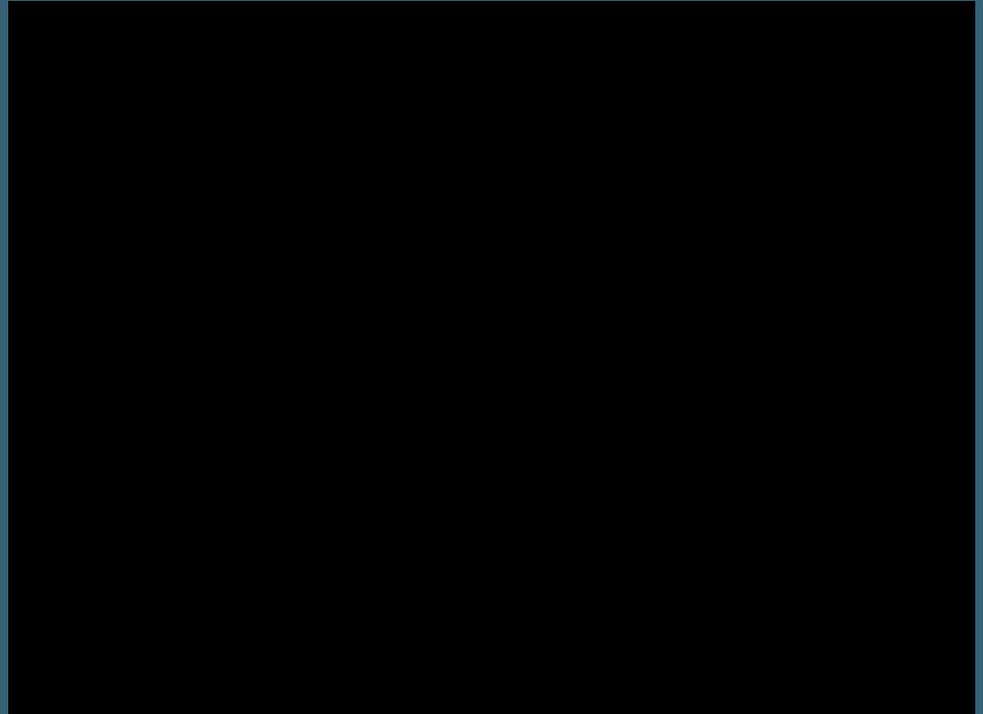


*“COVID-19 may impact our path there **BUT** it will not deter us from delivering on the commitments that we made to kids and families.”*

-District Leader

Let's hear from your Chiefs for Change network...

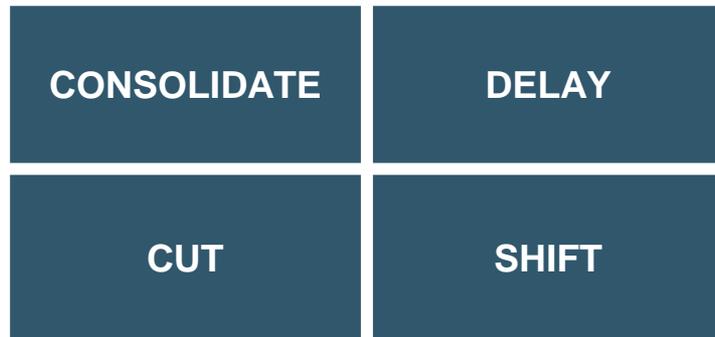
**How have
you kept your
longer term
priorities top
of mind?**



Weston Young, Chief Financial Manager at Indianapolis
Public Schools

To advance your district vision in a COVID-19 context, districts will need to pull a combination of levers

Lever 1: Adjust Ongoing Spending



Lever 2: Adjust Strategic Investments



By making intentional adjustments across *both* types of levers, districts can minimize the impact of COVID-19 on their strategic direction.

First, districts will need to consider for spending reductions that minimizes negative impact...

Lever 1: Reductions to Ongoing Spending

CONSOLIDATE

This could look like...

- Increasing class sizes
- Consolidating underutilized school buildings or closing sub-scale schools
- Combining non-teacher roles + responsibilities at the school and central office level
- Sharing program costs across buildings

Example: A school district decides to combine three under enrolled magnet programs into one.

DELAY

This could look like...

- Delaying capital investments
- Delaying pension contributions
- Delaying scheduled maintenance
- Delaying compensation increases

Example: A district decides to delay scheduled maintenance for central office buildings during work from home.

CUT

This could look like...

- Cutting field trips and extracurriculars
- Reducing central office staffing and expenses
- Cutting transportation (while remote)
- Reducing facilities maintenance and operations (while remote)

Example: A school district decides to cut central office staff by 10%.

SHIFT

This could look like...

- Reallocating professional development to focus on remote instruction
- Shifting material budget toward digital curriculum
- Altering food services spending to support food distribution services

Example: A school delays rolling out a new curriculum and reallocates spending to PD and remote programming.

... AND districts will also likely need to consider adjustments to their strategic priorities

Lever 2: Adjustments to Strategic Investments

REDUCE SCALE	CHANGE TIMING	CHANGE FORMAT
<p>This could look like...</p> <ul style="list-style-type: none">• Piloting investment in a grade level or subject• Concentrating investment in highest need schools <p>Example: A district originally planned to place literacy coaches in every elementary school. Due to budget cuts, they decide to put coaches in the 20 lowest performing schools or assign one coach to cover three schools.</p>	<p>This could look like...</p> <ul style="list-style-type: none">• Delaying the launch of a new strategy to later years• Moving up investments that have become higher priority <p>Example: A district planned to become 1:1 in the next five years, but now needs to make that investment in FY21.</p>	<p>This could look like...</p> <ul style="list-style-type: none">• Utilizing tech to deliver programs moving forward• Reconceptualizing how to achieve a strategic goal <p>Example: A district wanted to ensure AP access at each high school. Rather than hiring additional FTEs (as planned), they leverage capabilities built during distance learning to deliver AP coursework virtually.</p>

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Some spending decisions are constrained by policy, which can limit districts' financial planning options

Budget cuts may mean that school districts have increased leverage in this moment to seek increased policy flexibility to adapt to fiscal conditions.

Districts should reflect on places where policy constraints inhibit their ability to align spending to strategy, and figure out if there are ways to achieve increased flexibility.

Guiding Questions to Consider...

WHAT spending decisions are in our control? Which are not?

WHERE might increased flexibility help align spending to strategy?

HOW can I make the case for increased flexibility in those identified areas?

Let's hear from your Chiefs for Change network...

**How do policy
constraints
impact your
spending
decisions?
Where would
increased
flexibility help?**



Nolberto Delgadillo, Chief Financial Officer of Tulsa
Public Schools

Let's hear from you...

How do policy constraints impact your spending decisions? Where would increased flexibility help?

