

## **AOE Testimony: Financial Implications of the COVID-19 Emergency**

**Testimony To:** Senate Committee on Finance

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### **Context**

The COVID-19 emergency has caused a significant revenue shortfall in the Education Fund. The most recent projection of this shortfall is approximately \$90M. The \$90 million shortfall is really a \$142 million shortfall in FY20, with about \$53 million in deferred revenue to arrive in July or August of FY21.

The immediate financial impact on school districts and Education Spending is uncertain. Many districts have experienced new expenditures to comply with the emergency order in areas such as food service. Additionally, districts have had to make new investments in remote learning technologies to support the continuity of student learning as a result of school being closed for the purposes of in-person instruction. At the same time, many districts have seen a reduction in some expenditures as a result of school being closed. For example, it is expected that district student transportation expenditures will be reduced for the remainder of this fiscal year. On the other hand, although it is difficult to assess the immediate fiscal impacts of the COVID-19 emergency, we expect nearly all districts will eventually see increases in special education and student support costs as a result of the emergency.

### **CARES Act Revenues**

Districts will also have access to additional revenues under the CARES Act. Although the guidance on the CARES Act is still be developed, this is what we know now:

1. The largest pot of money will come out under the Elementary and Secondary School Emergency Relief Fund.
  - a. Vermont will receive about \$31M.
  - b. 90% of these funds have to go to local educational agencies (LEAs); the State educational agency (SEA) can reserve up to 10%.
  - c. The funds can be used until 9/30 of FY21.
  - d. Funds may be used to reimburse COVID-19 expenses retroactively from the date of the national emergency, on or after March 13<sup>th</sup>.
  - e. There will be a streamlined application process. We expect to have cash in hand by mid May.

2. Vermont will receive an additional allocation of approximately \$4.4M under the Governor's Emergency Education Relief Fund.
  - a. These funds are not dispersed through the SEA.
  - b. These funds are designed give governors flexibility in addressing the impact of COVID-19 on education systems to:
    - i. Provide emergency support through grants to the LEAs that the SEA deems to have been most significantly impacted by COVID-19;
    - ii. Provide emergency support through grants to institutes of higher education serving students within the State that the Governor determines have been most significantly impacted by COVID-19; and
    - iii. Provide support to any other education-related entity within the State that the Governor deems essential for carrying out emergency educational services to students.
  - c. The [application](#) for these funds went live on 4/14. We are working with the Governor's Office to complete the application.

### **Policy Considerations to Maximize Use of Federal Revenues to Stabilize the Education Fund**

1. Revenues from the CARES Act alone will be insufficient to stabilize the fiscal context of Vermont's Education Fund as a result of COVID-19. The State, LEAs and/or towns will have to borrow funds to do so.
2. FY20 will require borrowing:
  - a. The State could borrow the entire amount.
  - b. The State could bill districts for some portion of their CARES Act revenues to offset the amount the State would be required to borrow.
  - c. Local districts and municipalities might need to engage in short-term borrowing to cover expenses or to make required education payments.
3. The fiscal situation for FY21 and FY22 can be informed by frequent and regular communication about the fiscal context to local decision makers who control education spending decisions, and policy makers who control education financing decisions. This means something like the December Tax Commissioner's letter being published early in the fiscal year with regular updates to guide decision making.