

The End of Federal COVID-19 Relief Funding and What it Means for K-12 Finances

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Citizens Research Council

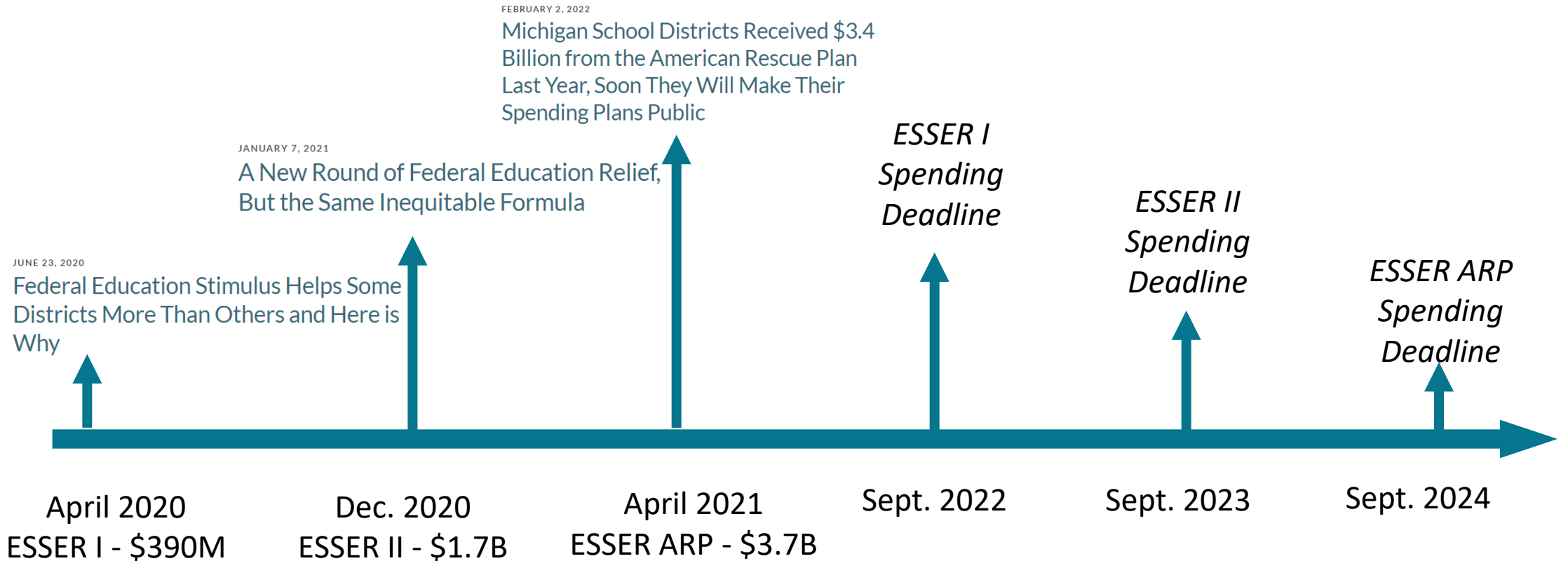
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- Statewide
- Non-partisan
- Private not-for-profit
- Promotes sound policy for state and local governments through factual research – accurate, independent and objective
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Federal COVID-19 Relief Funding

Largest-ever Federal Involvement in K-12 Education

Brief ESSER* Chronology

2021 American Rescue Plan the last of three packages - \$5.8B total



*ESSER – Elementary and Secondary School Emergency Relief

How Much Federal Aid Are We Talking About?

Wide variation in per-pupil allocations across districts

Federal ESSER Formula Allocations by District Location

District Location	# of Districts	Total ESSER Formula Allocation	Students (Fall 2021)	Per Student
City	158	\$2,832,477,213	330,084	\$8,581
Rural	308	\$615,493,600	253,161	\$2,431
Suburb	239	\$1,322,770,789	626,969	\$2,110
Town	100	\$413,562,075	171,861	\$2,406
Total	805	\$5,184,303,677	1,382,075	\$3,751

Source: Michigan Department of Education, COVID relief budget requests

- ESSER - largest federal investment in K-12 education EVER
 - Three times as large as Obama-era relief
 - 10X larger than Title IA ongoing funding
- 90% went directly to school districts
 - Existing federal Title IA formula
 - Greater amounts to low-income schools
 - Substantial variation in per-pupil amounts
- 10% to Michigan Dept. of Ed. for discretionary use
 - Used to fund “equalization” payments
 - Guarantee \$1,100 per student
- Money arrived ON TOP of historic state funding amounts

COVID-19 Academic Disruptions

Effects were not uniform across districts

District Name	% Free and Reduced Price Lunch	Math Learning Loss (grade levels) 2019-2022	Reading Learning Loss (grade levels) 2019-2022
Northville Public Schools	6.2%	-0.02	-0.23
Birmingham Public Schools	8.7%	-0.21	-0.21
Bloomfield Hills Schools	11.2%	-0.04	-0.04
Ann Arbor Public Schools	25%	-0.68	-0.4
Ravenna Public Schools	49.2%	-0.83	-0.67
Allegan Public Schools	55.4%	-0.41	-0.49
Alpena Public Schools	57.5%	-0.52	-0.66
Gwinn Area Community Schools	60.6%	-0.58	-0.67
Lansing Public School District	66%	-1.14	-1.14
Saginaw Public Schools	72.3%	-1	-1.38
Pontiac City School District	77.9%	-0.68	-0.9
Grand Rapids Public Schools	78.2%	-0.68	-0.78
Detroit Public Schools	80.5%	-0.9	-1.03

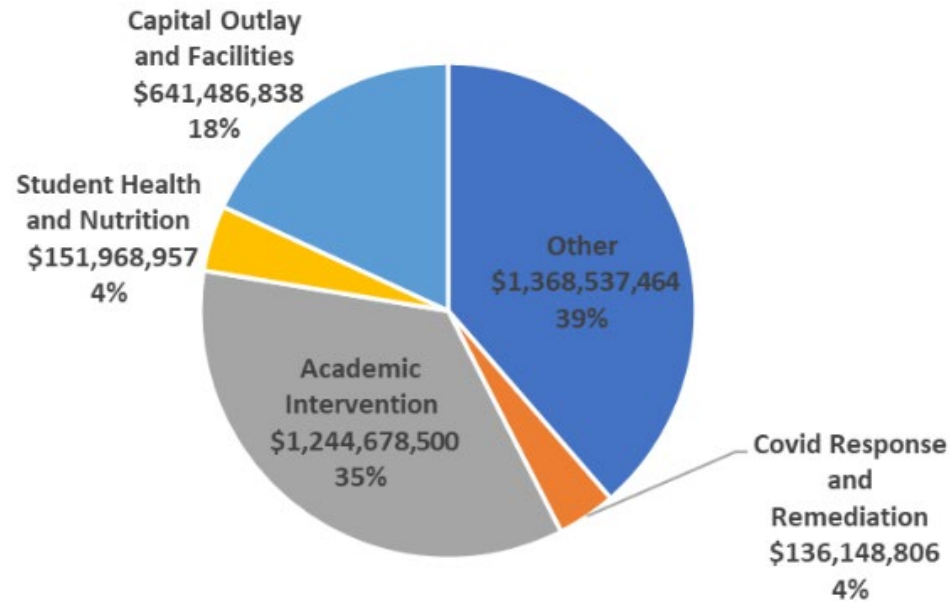
Source: Education Recovery Scorecard, 2022

- Estimate of “years of learning loss” experienced by students between 2019 and 2022
- Impacts pervasive, but uneven; widening existing achievement gaps
- Students in **Lansing Public Schools** and **Saginaw Public Schools** lost an entire year
- **Birmingham** students lost the equivalent of 20% of a school year

Where is the money going?

District plans vary and are supposed to reflect community input

Districts' Planned Spending of Federal COVID Relief Funding

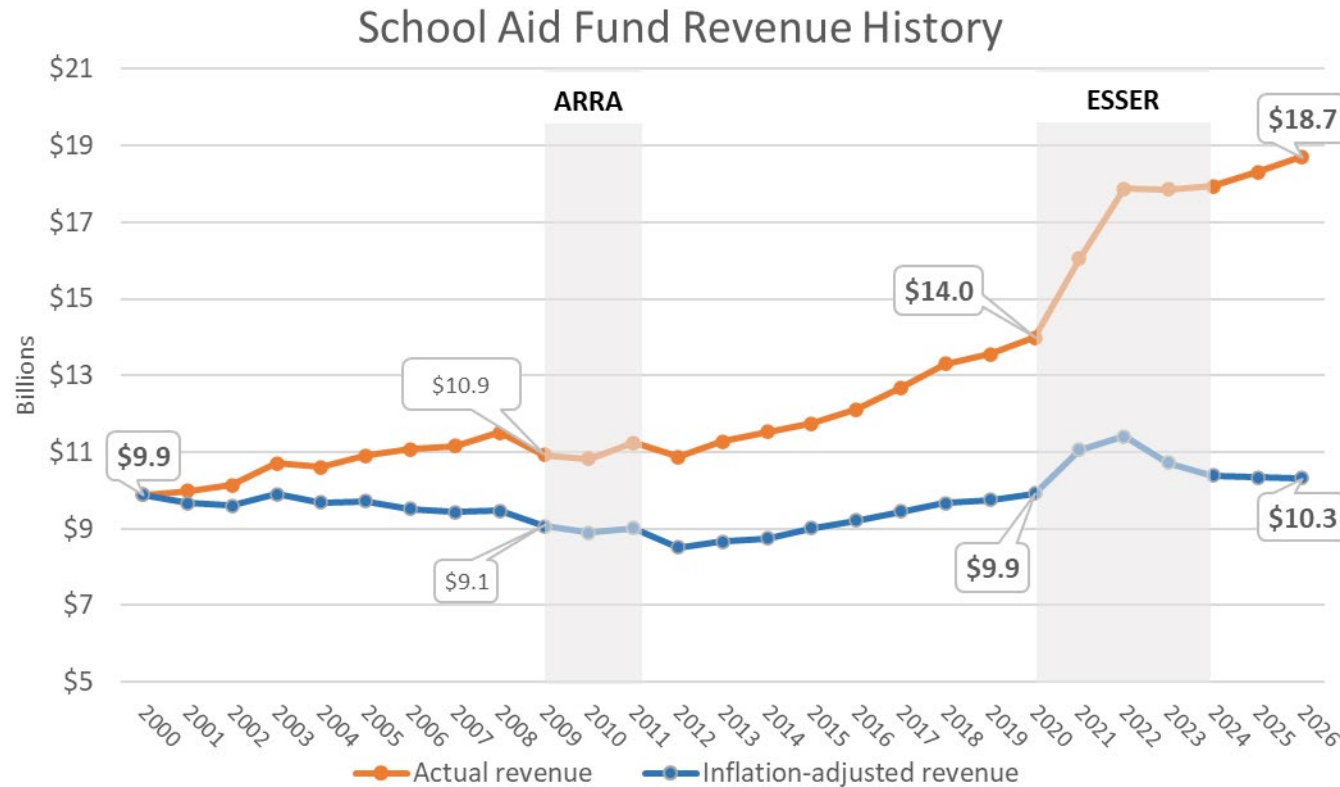


Source: Michigan Department of Education, COVID relief budget requests

- Wide discretion in allowable uses of aid dollars
 - Despite early warnings, NOT used to back-fill state/local funding cuts
 - ARPA requires schools to spend at least 20% on “learning loss”
- Spending plans vary from district to district
 - Community input required
 - Largest category – “other” followed by “academic intervention”
- Timely public information about plans lacking – state and local

Federal Aid Layered on Top of State Funding

School Aid Fund up 34% since FY2020



Source: Senate Fiscal Agency

Federal dollars arrive during period of substantial SAF revenue growth

SAF revenue grew by \$4B between FY2020 and FY2024

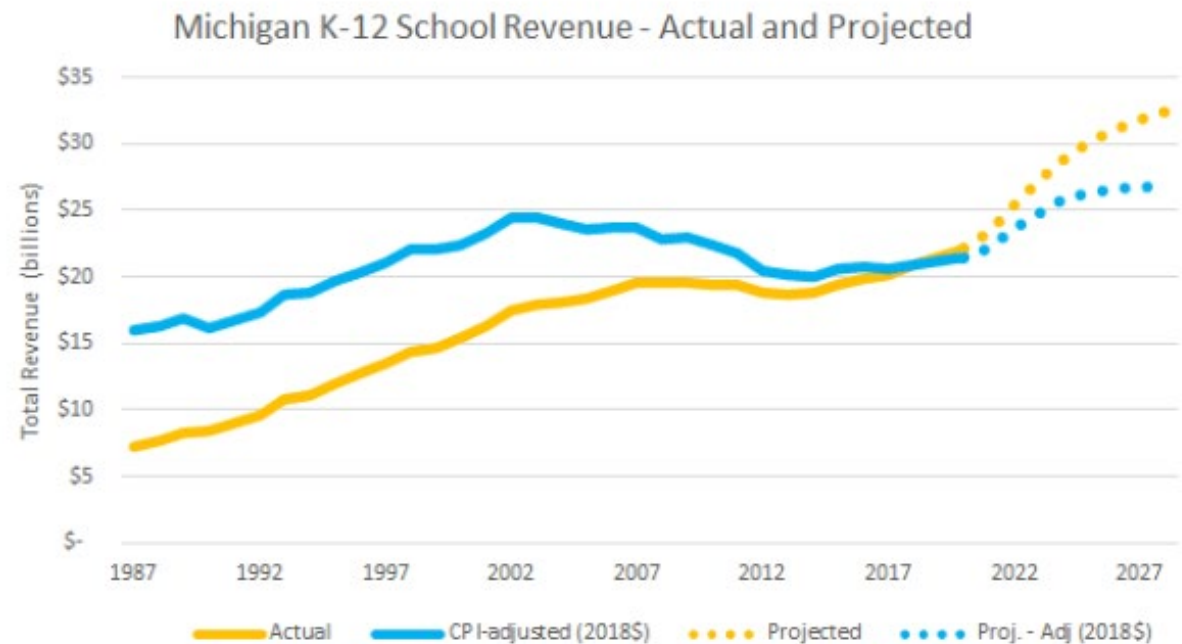
Very different situation compared to Great Recession

- ARRA used to “back-fill” reduced state funding
- Per-pupil foundation allowance cut \$470

Impacts on K-12 Revenue Growth

Long spending tail, revenue growth begins to slow in 2025

- After years of slow growth in total K-12 revenue, federal aid changes growth trend trajectory
 - Comes on top of growing state/local revenue base
- Revenue growth slows in out years
 - Several districts will face a “fiscal cliff”



Source: US Dept. of Education, Congressional Budget Office. Citizens Research Council estimates

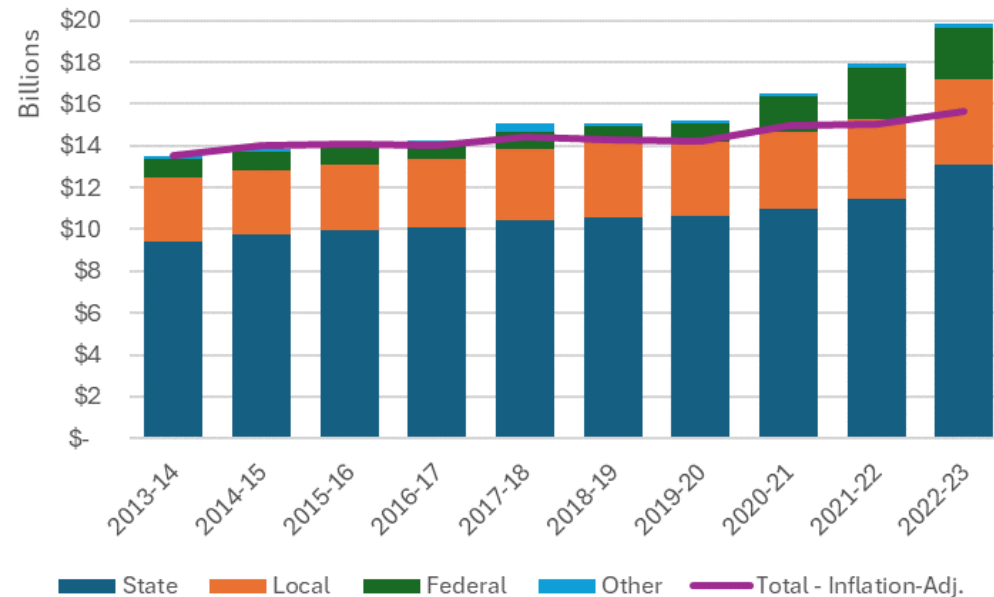
K-12 District Finances

Funding Brings Stability to Budgets (at least temporarily)

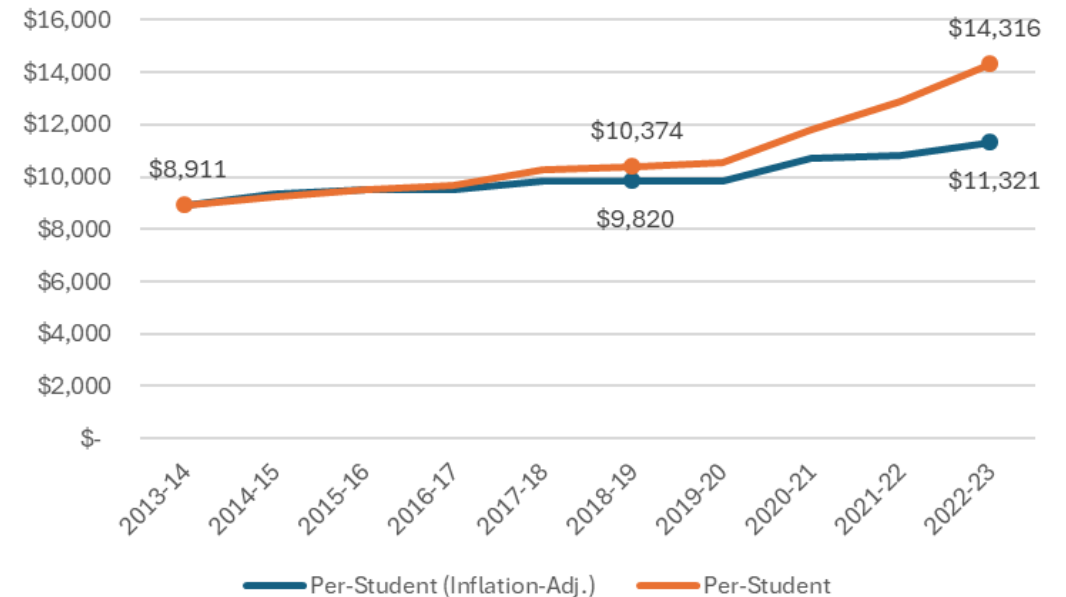
Historic K-12 Education Funding Levels

Increases surpass recent spikes in inflation

Total GF Revenue Up 16%



Per-Pupil GF Revenue Up 27%

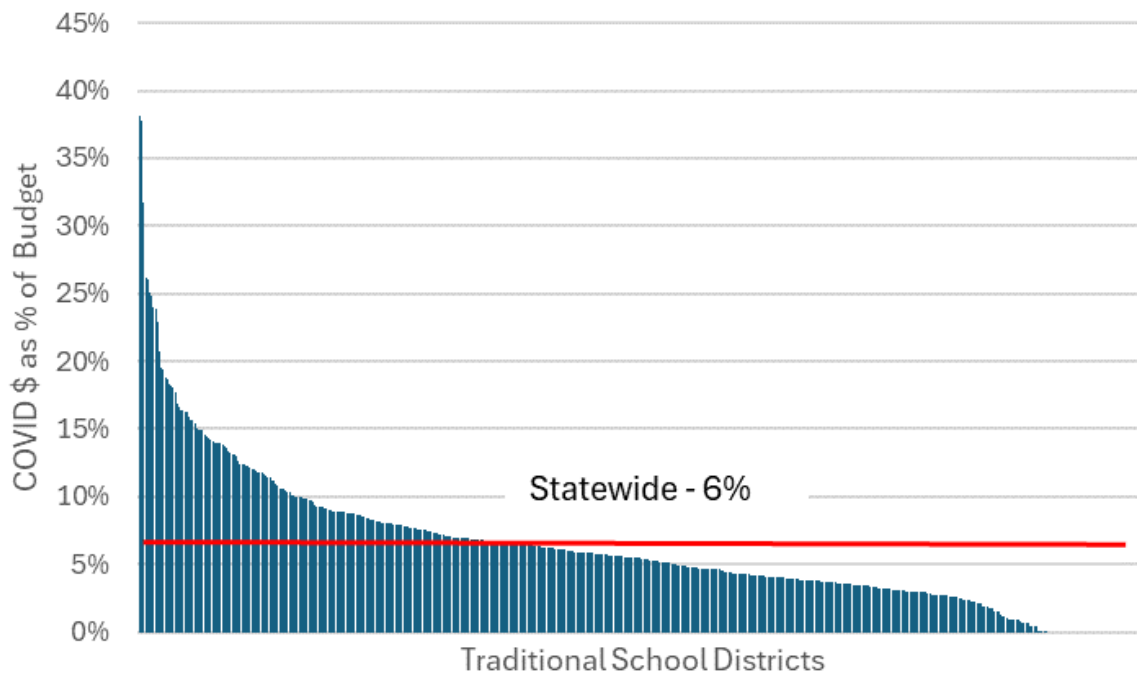


Source: Center for Educational Performance and Information

ESSER Plays Major Role in Recent Budgets

Experiences vary substantially

FY2023 GF Budget Shares



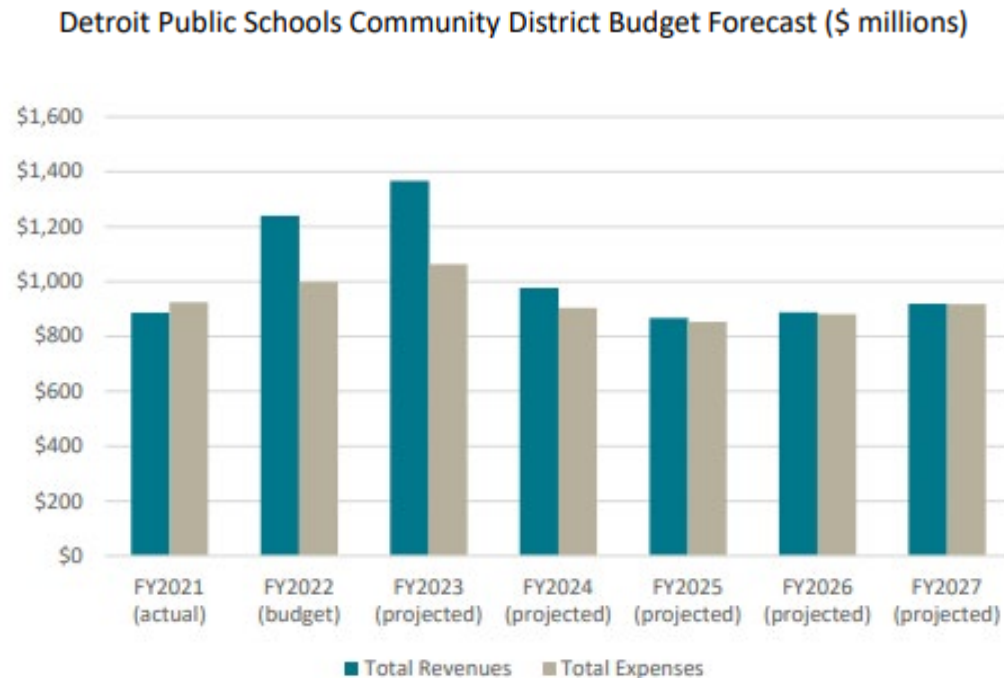
Observations

- District spending has been uneven across multiple fiscal years
 - No “typical” district experience
- For most recent year (FY2023), one-time revenues make up 6% of GF budget, but considerable variation

Source: Center for Educational Performance and Information

Budget Realities – Detroit Example

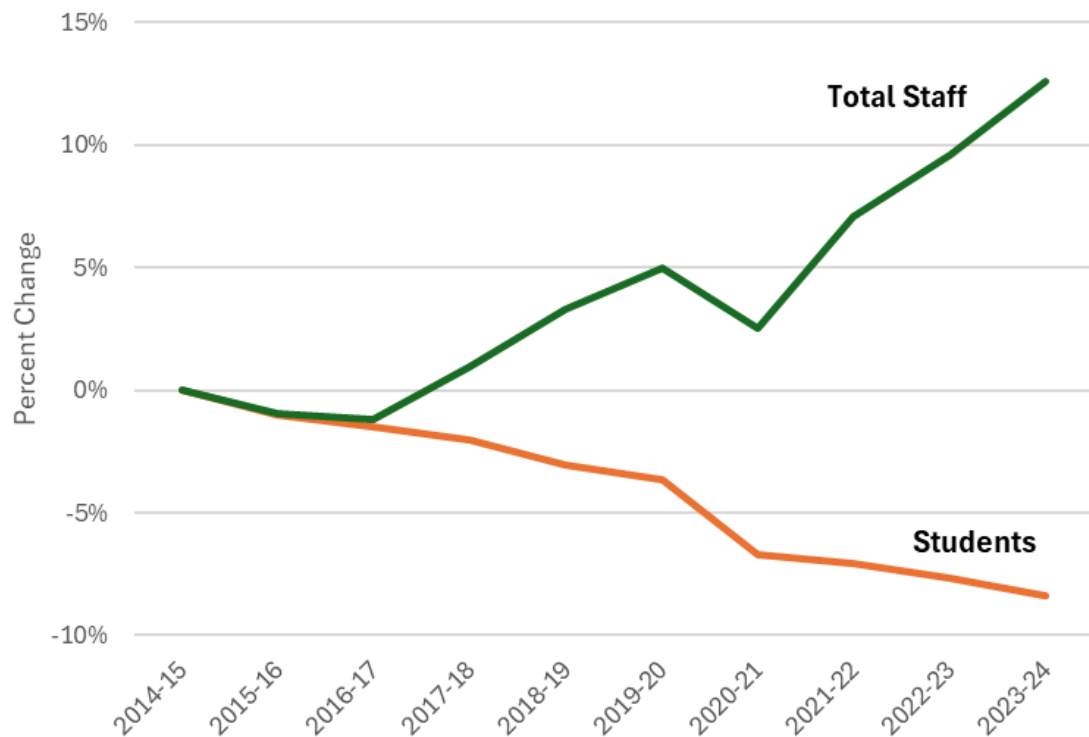
Observations



- The district is expected to receive \$1.2 billion
 - Nearly \$500 million used in its operating budgets for FY2022 through FY2024
 - \$700 million to support one-time investments in its capital improvement program
- Operating spending ramps up to \$1.1 billion by FY2023
 - However, with the expiration of the federal funds, spending falls back to \$905 million in FY2024 and then to \$854 million in FY2025.
- DPSCD will have to shed 100 positions, including teachers, mental health professionals, and nurses from its ranks to avoid an operating deficit and manage the impending fiscal cliff

ESSER Used to Increase Staffing

While student enrollment continues to decline



- K-12 employment (FTE) **up 25,000 or 12%**, while student enrollment **down 8%** since 2014-15
 - Substantial variation at local level
- COVID-19 temporally disrupted employment trend, but hastened enrollment decline with largest impacts in early grades
- Staffing ratios decline - more teachers per student than before the pandemic

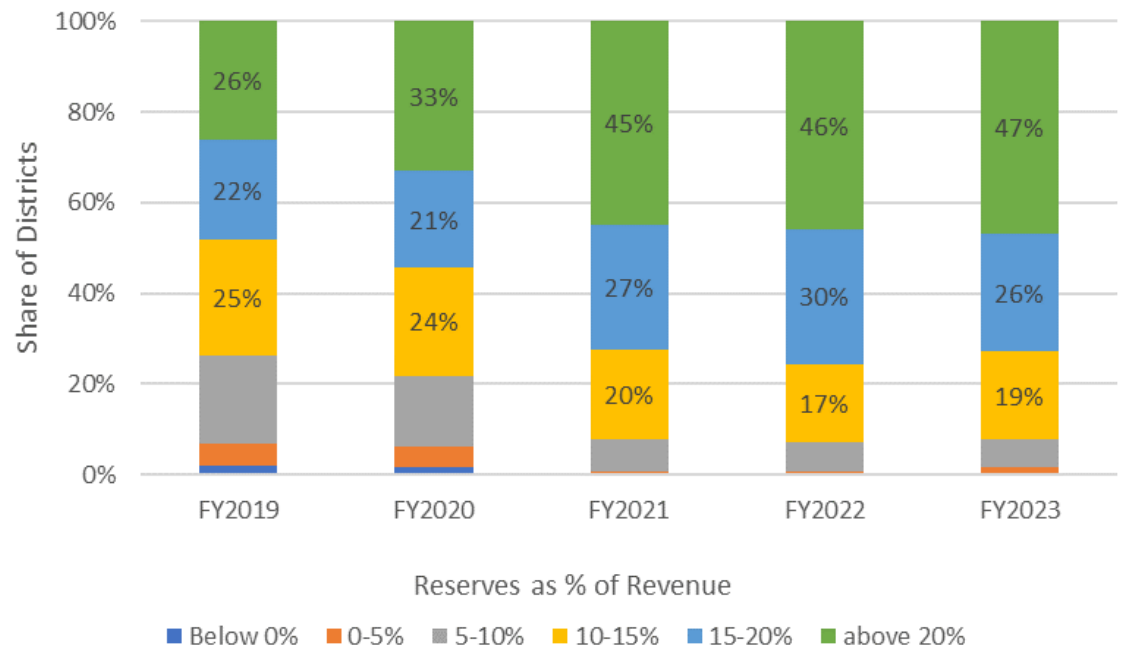
Source: Center for Educational Performance and Information

Funds Used to Improve Schools' Financial Health

Flexibility allowed districts to grow their reserves

- Federal funds provide budget stability
 - Substitute state and local spending with federal spending
 - Place state/local dollars in reserve
 - Statewide, reserves grew from \$2.4B in FY19 to \$4.6B in FY23
 - \$3,300 per-student in FY23
- Nearly 50% of districts have reserves sufficient to cover at least 2.5 months of operations

3 of 4 Districts with at Least 15% in Reserve



Source: Center for Educational Performance and Information

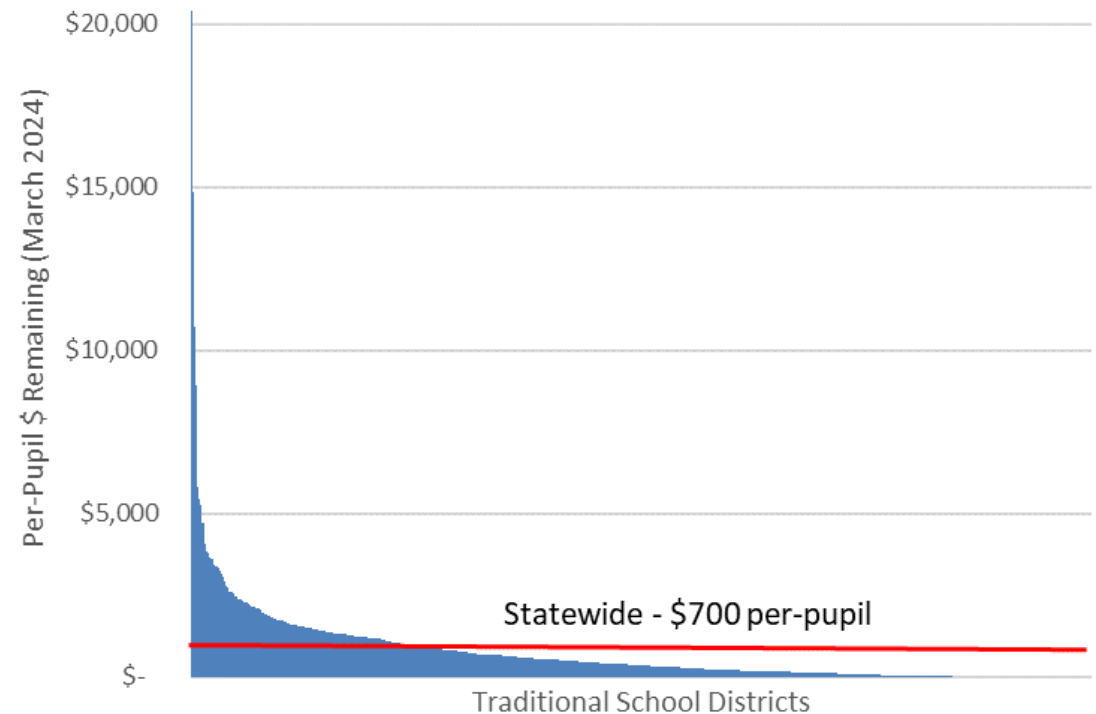
Looking Ahead

Unwinding Massive Federal Funding Comes with Challenges

Where Things Stand with Six Months to go

Handful of districts with sizeable sums remaining

- ESSER spending deadline six months away
 - “Use it, or lose it” – money returned to federal gov’t
 - No extension from Congress
 - Reimbursements extend beyond deadline
- As of March 2024
 - \$965M of \$3.3 billion remaining ~30% or \$700 per student
 - 14% of districts (114) have exhausted their allocations
 - Still, per-pupil amounts vary



Source: Michigan Department of Education

Which Districts will Face the Steepest Cliffs?

- We don't know with great certainty, BUT it is likely to be
 - Those districts that received the largest allocations (e.g., larger urban districts and those with high concentrations of low-income students)
 - These are the students that were impacted the most from school closures and disrupted learning
- Those districts that delayed spending their relief dollars rather than spreading the funding across multiple years
- Those districts that allocated larger shares to ongoing expenses (e.g., new staff, higher salaries) compared to other investments (e.g., one-time bonus payments, facilities, curriculum)
- Pay attention to 2024-25 budget discussions and how schools navigate the loss of relief funds

Early Signs of Challenges Ahead

2024-25 Budget Development Happening NOW

Facing over \$17 million budget shortfall, Michigan school district could lay off up to 100 workers

J. Cooper

© 8 December 2023

Grosse Pointe Schools approve budget cuts of \$4.6 million, eliminating teaching jobs

By Jack Nissen | Published June 21, 2023 8:29am EDT | Grosse Pointe | FOX 2 Detroit | [↗](#)

SYSTEMS REPAIR

Detroit school board approves staffing cuts as budget crunch looms

Some layoff notices have already gone out to staff members, who have the option to move into alternative positions at equal or higher pay.

by Malak Silmi May 9, 2023



Layoffs expected as Ann Arbor Public Schools must cut \$25 million from budget



Lily Altavena

Detroit Free Press

Published 6:46 p.m. ET March 20, 2024 | Updated 9:13 p.m. ET March 20, 2024

Unwinding Recent Funding Increases

Staffing reductions on the horizon

- Backdrop: decades-long trend of declining student enrollment
- Statewide: hiring up, while enrollment down
 - Student-staffing ratios fell for 86% of districts since pandemic
 - Student-teacher ratios fell in 71% of districts
- Potential loss of 5,100 teachers to reach 2018-19 ratios

Districts Most At-risk of Staffing Reductions

District	Student/Teacher Ratio		Reduction in	Change: 2018-19 to 2023	
	2018-19	2023-24	Teachers to Get Back to 2018-19 Ratio	Students	Teachers
Ann Arbor Public Schools	15.7	13.8	(142)	-6%	6%
Utica Community Schools	20.6	18.8	(119)	-6%	3%
Wayne-Westland Community School District	18.4	15.2	(106)	-11%	8%
Walled Lake Consolidated Schools	20.0	17.4	(89)	-12%	1%
Plymouth-Canton Community Schools	19.4	17.5	(88)	-8%	2%
Warren Consolidated Schools	20.0	17.6	(85)	-8%	4%
Lake Orion Community Schools	18.6	15.6	(67)	-8%	9%
Detroit Public Schools Community District	16.4	16.0	(66)	-3%	-1%
Port Huron Area School District	17.5	15.0	(66)	-13%	2%
Livonia Public Schools School District	17.9	16.4	(63)	-7%	1%

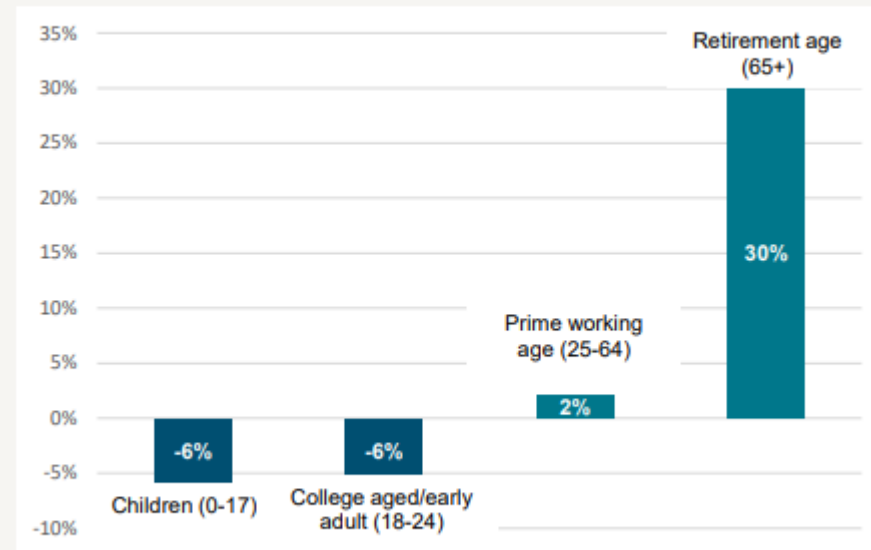
Source: Center for Educational Performance Information

More School Closures on the Horizon

Population projections suggest continued enrollment losses

- Under-enrolled schools are less efficient to operate
 - Building's fixed costs, as well as K-12 teaching workforce (AP, electives, etc.)
 - These costs spread across all schools operated by a district
- Facilities decisions move to "front burner" in budget talks
 - Since 2009-10, 12% reduction in number of traditional public schools (16% enrollment loss)
 - Rate of school closures slows since pandemic
- School closure is one of the most difficult decisions faced by community

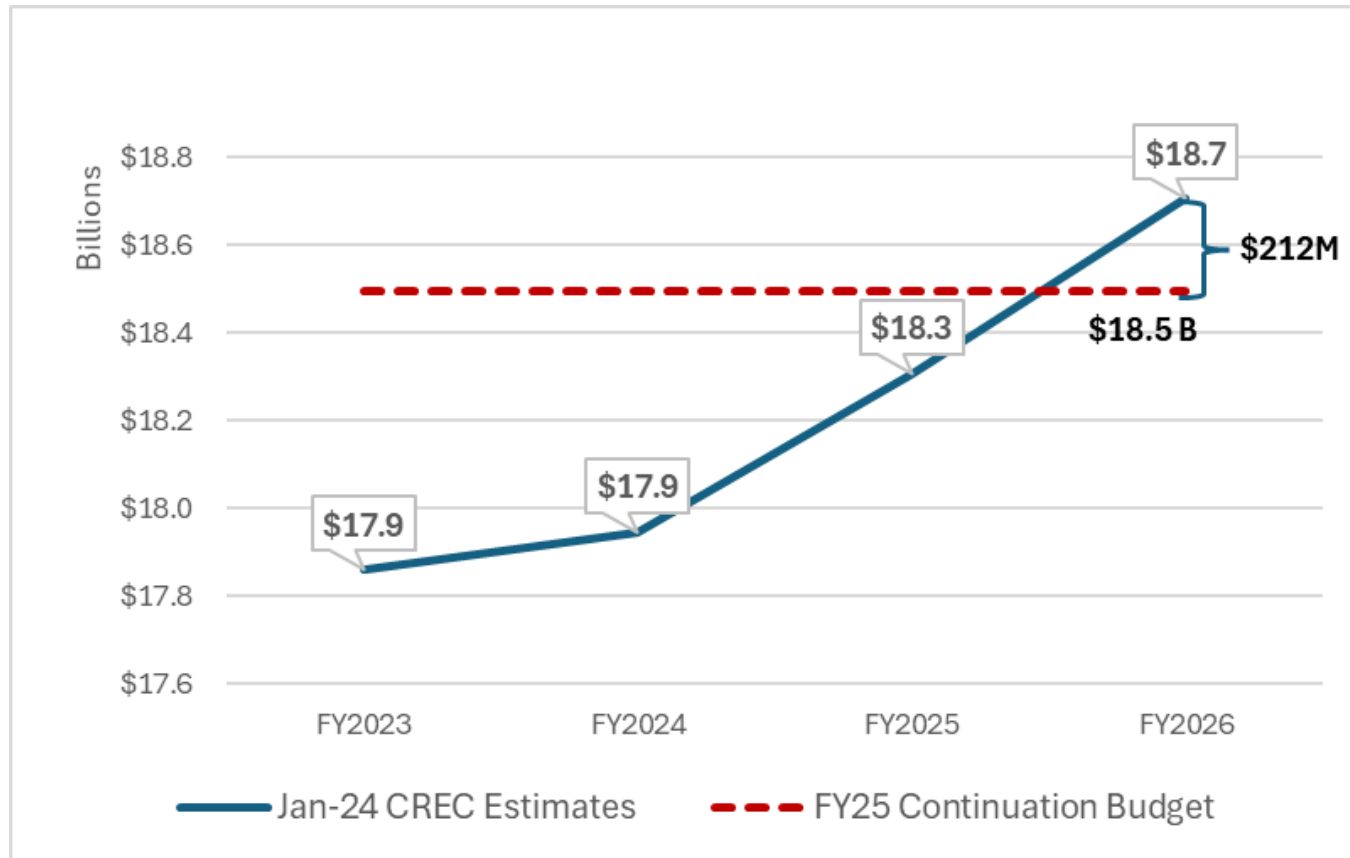
Chart 4: Projection of Michigan Population by Major Age Group, 2020 to 2050



Source: University of Michigan Research Seminar in Quantitative Economics projections

Will State Revenue Growth Fill the Void?

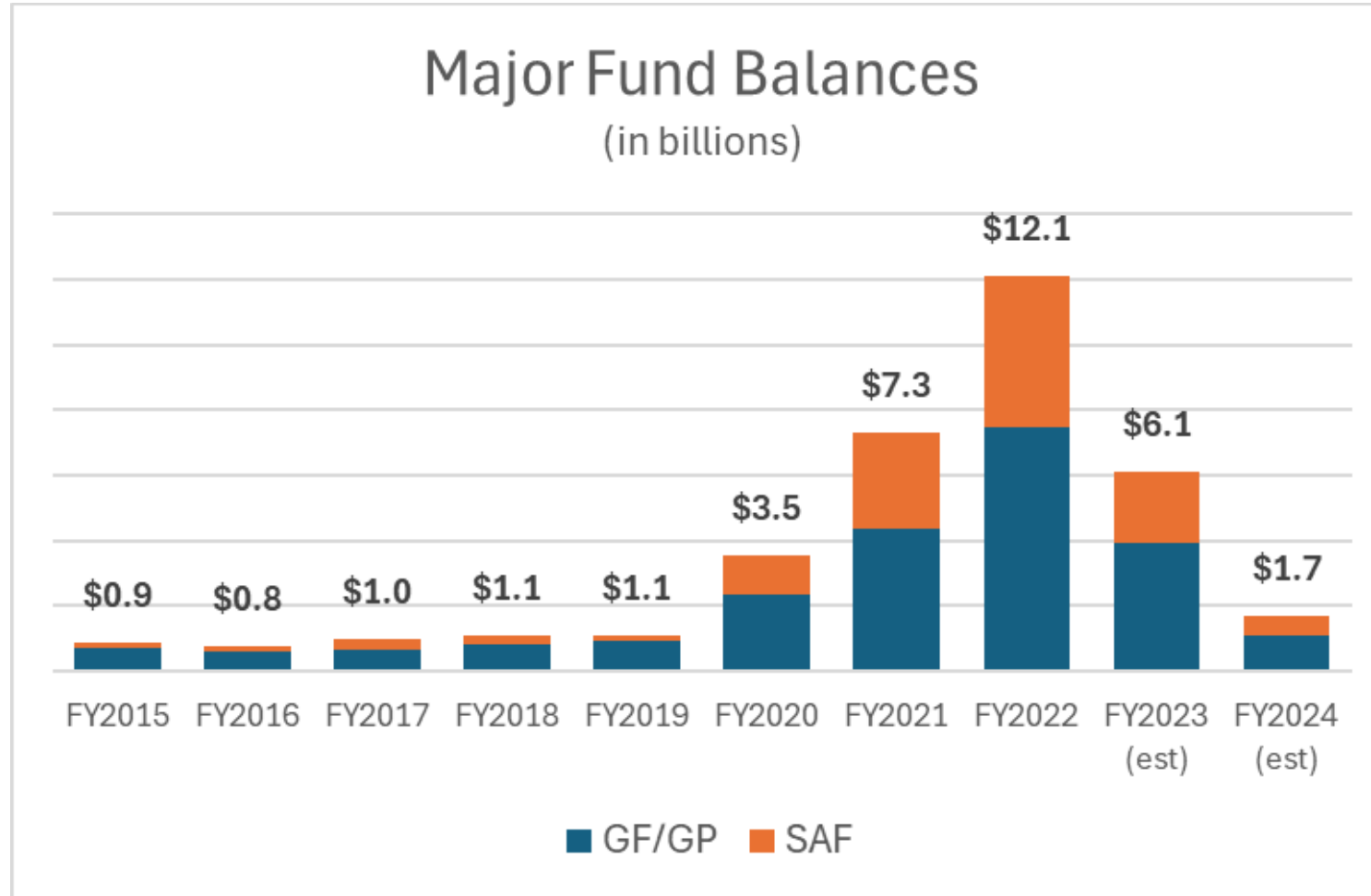
Only Room for 1% Growth in FY26



- Room for very modest budget growth in FY26 of around \$212M (just over 1 percent)
- SAF fund balances would be largely eliminated by end of FY25
- Bottomline: state will NOT be able to make district budgets whole

Source: Research Council calculations Senate Fiscal Agency balance sheet projections and Executive Budget Book.

State's "Money in the Bank" is Gone



Both GF/GP and SAF projected year-end balances are down from the unprecedented levels realized over the previous four fiscal years.

FY24 Year-End Balance Estimates:

- GF/GP: \$1.1B
- SAF: \$564M

Source: State of Michigan Comprehensive Annual Financial Reports and House Fiscal Agency projections.

How is Academic Recovery Going?

It's a mixed picture, but overall not so good

- According to Education Recovery Scoreboard*
 - The recovery had barely begun in 2023.
 - Statewide, achievement rose by an anemic 7% of a grade equivalent in math and 1% in reading.
 - If Michigan continues improving at 2023 rate, full recovery will require five additional years for students to recover in math, and decades to recover in reading.
 - Achievement gaps between high- and low-poverty districts widened sharply during the pandemic, with students in high-poverty districts losing the most ground. Recovery efforts have thus far failed to close those gaps.
- Bottomline – much more work for schools (and communities) to do to get students back to pre-pandemic academic levels

* Joint research effort of Harvard Graduate School of Education and Stanford University

Final Thoughts – Key Takeaways

- Federal relief funds used to grow district budgets, also improve overall financial health
 - Staffing way up and will have to come down
 - Reliance on fund balance to balance budgets in short-term
- Return to “normal” K-12 school budgeting in 2024-25
 - Moderate state revenue growth – not enough to replace lost federal aid
 - Head wind – declining student enrollment
- Address unfinished learning – while historic amounts of federal funds will be gone, substantial student academic and health needs remain
 - State of Michigan and local schools must make this a priority

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