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School Budgets Face Reckoning as Pandemic Cash Runs Dry

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Schools across Michigan are about to face another COVID-related disruption as billions of dollars in federal pandemic aid runs out in less than a year.

But unlike the unprecedented interruptions to in-person learning that occurred without warning as the novel coronavirus spread across the globe in early 2020 and sent students home for months, school leaders have had time to plan and prepare for the upcoming fiscal disruption. For many school districts, however, adjusting budgets will require a delicate balancing act to ensure their students’ academic recovery is not side-tracked by the loss of the one-time relief dollars.

Since late 2020, almost \$5.2 billion has been provided directly to districts under two federal relief packages to help schools navigate the pandemic. That massive sum is nearly three times the amount of federal aid schools received in the wake of the Great Recession and is triple the amount of ongoing federal funds they receive annually. As a result, many school districts have been flush with cash the last few years, using the federal relief aid to respond to student’s academic and health needs by adding staff, increasing salaries, expanding programs, and improving facilities. With this aid, school budgets have seen substantial spending increases that they would not otherwise be able to afford with their regular ongoing revenue.

Funds from 2021’s American Rescue Plan Act, the last and largest aid package, came with a use-it-or-lose-it fall 2024 deadline. That means the current 2023-24 school year is the last full year for school districts to spend down what remains. Beginning September 2024, district budgets will have to do without the federal largesse.

Collectively, schools have \$1.5 billion in ARPA funds yet to spend, this equates to an average of \$1,000 per student statewide or 11 percent of the current \$9,600 per-pupil foundation allowance. Several districts, however, have much larger per-student amounts remaining, which means they will have even steeper funding cliffs next year when the federal aid is gone.

The impacts from the loss of federal relief aid will be most acute for those school districts educating our most neediest students. That is because the federal aid was primarily distributed to districts based on the number of poor students – the same students that suffered the greatest learning impacts from the pandemic and today find themselves even further behind than their more well-off peers based on recent state assessments.

Most of the unspent funds are concentrated among a handful of districts that received the largest per-pupil allocations. According to the most recent state data, 16 of the state’s 800-plus districts have at least \$10 million of their ARPA allocation remaining to spend. Collectively, this small subset of districts account for more than 40 percent of the total unspent funds statewide. This list includes several large districts in southeast Michigan, such as Detroit, Pontiac, Dearborn, and Southfield, as well as urban districts in Flint, Grand Rapids, Lansing, and Muskegon. Twelve of the 16 districts have at least 50 percent of their ARPA allocation still to spend, with the amounts of unspent funds ranging from \$1,700 per-pupil (Lansing) to \$25,000 per-pupil (Flint). All well-above the \$1,000 per-pupil statewide figure.

There is no escaping the math – district budget right-sizing is on the horizon. This will surely involve painful budget cuts to popular programs and services that have been initiated with these one-time dollars. Schools that received substantial sums of aid were able to afford extended tutoring, additional summer programming, new mental health services, along with other services. Because school budgets largely pay for labor, districts will have few choices but to reduce staff. Nearly half of the relief aid spent to date has gone to salaries and benefits, helping to swell school employment levels to new heights.

While a few districts have begun right-sizing by shedding positions from this year’s budget, most are pushing the hard decisions to tomorrow. Doing so, however, makes the inevitable funding cliff even more steep. With academic recovery still ongoing, especially for those students hardest hit by the pandemic, many school leaders face a delicate balancing act preparing their budgets for the 2024-25 school year.

ABOUT THE AUTHOR

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Craig is the Research Council’s Research Director and primary researcher of education and school finance issues. Prior to becoming Research Director, Craig served as the Director of State Affairs and as a Senior Research Associate. During his graduate school studies, he worked for the Council as a Lent Upson-Loren Miller Fellow from 1993 to 1995. Before joining the Council in 2006, Craig worked for ten years as a fiscal analyst at both the Senate Fiscal Agency and the House Fiscal Agency. He previously worked for the Michigan Department of State, Office of Policy and Planning and the United States Environmental Protection Agency in Chicago.

Craig holds a B.A. in Economics and Political Science from Kalamazoo College and a Masters in Public Administration from Wayne State University. He holds positions on various professional, nonprofit, and local government boards/associations.

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