



SPENDING DEADLINES HANG OVER \$3.5 BILLION OF UNSPENT FEDERAL K-12 EDUCATION RELIEF FUNDS

In a Nutshell

- As of October 2022, Michigan's traditional and charter public schools have spent \$2.1 billion of the nearly \$5.6 billion federal COVID-19 dollars directly allocated to them under the last two federal relief packages. This leaves them with another \$3.5 billion to program over the current and next two school years, before hitting the September 2024 federal spending deadline.
- Just 95 of Michigan's 800-plus school districts account for \$2.3 billion of the total \$3.5 billion in unspent federal aid. These districts comprise approximately 12 percent of all districts in the state, but they account for nearly seven of every ten unspent federal relief dollars. Some of these districts have remaining federal per-pupil balances equivalent to two or three times their annual \$9,150 state per-pupil foundation allowance.
- State policymakers should take note of the amount of federal relief funds that schools still have at their disposal and, just as importantly, which districts have the largest balances remaining. This information should be factored into upcoming state budget decisions to ensure that future state School Aid Fund investments in K-12 schools are appropriately leveraged to address the educational recovery needs of all Michigan school children affected by the pandemic and to fill in the funding gaps for those schools that did not receive large allotments of federal relief funding and on supporting those schools where students are furthest behind academically and developmentally.

Introduction

Billions of dollars in federal pandemic relief funds flowed to Michigan K-12 public schools from three stimulus packages since 2020. State data provided to the Citizens Research Council by the Michigan Department of Education offers an updated snapshot of state- and district-level spending of these dollars, including how quickly these governments are drawing down their allocations and the amount of unexpended funds still available as of late 2022.

The district-level data provides a clear picture of the amount of spending that has occurred and how much remains, but it lacks details regarding how districts are spending the money. Previous analysis showed that, in general, schools were prioritizing their earlier rounds of federal aid towards maintaining current

operations during remote learning and re-opening schools beginning in fall of 2020. As the pandemic has progressed, school spending has shifted with more of the most recent funding directed to student academic recovery and investments in educational technologies and facilities, such as HVAC systems.¹

With just over 18 months to go before schools hit the deadline to exhaust their federal aid allotments, this report examines how the remaining federal funds are impacting their near-term finances, the challenges and considerations some schools face as they move into this period, and why state policymakers should take note of the considerably large balances some schools have as they prepare to write the upcoming state K-12 education budget and determine the

best uses for a \$4.1 billion School Aid Fund budget surplus.

As of October 2022, Michigan’s traditional and charter public schools have spent \$2.1 billion of the nearly \$5.6 billion federal COVID-19 dollars directly allocated to them in the last two rounds. This leaves another \$3.5 billion to program over the current and next two school years, before hitting the September 2024 federal spending deadline. This is equivalent to almost a quarter of the total revenue schools receive annually from all federal, state, and local sources on an ongoing basis.

But the \$3.5 billion of unspent federal education funds is not equally distributed across the state’s 800-plus traditional and charter public schools, largely because they received widely different per-pupil allocations. Nearly \$2.3 billion of the total unspent funding is concentrated among just 95 districts responsible for educating 12 percent of the state’s 1.4 million students. Not surprisingly, these are the districts that received the largest per-pupil allotments. After adjusting for student enrollments, some districts have remaining per-pupil balances equivalent to two or three times their annual \$9,150 state per-pupil foundation allowance.

With large remaining federal aid balances, these schools have considerably more work to do before

the federal dollars expire. With less than two calendar years to spend their remaining balances, these schools are going to have to increase their spend rate or risk leaving federal money on the table. This future spending will be critical to address the unmet academic, social, and emotional needs of students. Districts with large balances face the challenge of determining how to use their relief funds to meet the unique demands of COVID-19 without leaving budgetary holes when the one-time federal dollars expire.

State policymakers should take note of the amount of federal relief funds that schools still have at their disposal and, just as importantly, which districts have the largest balances remaining. This information should be factored into upcoming state budget decisions to ensure that future state School Aid Fund investments in K-12 schools are appropriately leveraged to address the educational recovery needs of all Michigan school children affected by the pandemic. Where appropriate, state funds should be used to fill-in the funding gaps for those schools that did not receive large allotments of federal relief funding and for those schools where students are furthest behind academically and developmentally. To help students today, they should avoid allocating large portions of the state’s \$4.1 billion School Aid Fund surplus to those schools that currently have sizeable per-pupil federal aid balances to spend.

Background: Historic Amounts of Federal Aid Flow to States and Local Schools

The 2020 onset of the COVID-19 pandemic set in motion a windfall of federal aid flowing to states to deal with the educational and safety issues caused by the nascent public health emergency. The federal relief spigot would remain open until spring 2021 with the passage of the American Rescue Plan Act. As of July 2022, nearly \$25 billion in direct federal grant funding had been awarded to Michigan across

six different relief packages to aid individuals, businesses, K-12 schools, colleges and universities, community groups, and many others.² In addition to the direct financial benefits arising from these transfer payments, the fiscal stimulus fueled state and local tax revenue growth, including dedicated K-12 education revenue.³

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Three of the federal aid packages sent historic amounts of one-time aid to the nation's public K-12 schools through the Elementary and Secondary School Emergency Relief (ESSER) fund.^A Each tranche of funding was exponentially larger than the previous one. In total, Congress set aside \$190 billion for K-12 schools.

The multiple infusions of dollars into the ESSER fund makes for the largest ever federal investment in the nation's K-12 schools. In total, Michigan received over \$5.8 billion across the three rounds. This dwarfs the amount of ongoing aid the state's schools receive annually (\$450 million) under the federal government's largest education program and is more than four times the \$1.5 billion (\$1.8 billion in today's dollars) the state received under the American Recovery and Reinvestment Act of 2009 for relief from the Great Recession.

The Coronavirus Aid, Relief and Economic Stability (CARES) Act, approved in March 2020, sent Michigan \$390 million in ESSER funds. The second round (ESSER-II) arrived in December 2020 by way of a federal supplemental appropriations act and provided another \$1.7 billion, more than four times the CARES Act allocation. Then, in March 2021, the American Rescue Plan Act (ESSER-ARP) sent another \$3.7 billion to public K-12 schools. This was more than twice the size of the previous round.

By law, states are required to use at least 90 percent of their ESSER allocation from each round to make subgrants to individual public school districts. To expedite the flow of these funds, Congress used the existing federal Title I formula to divvy up the relief aid among districts. Title I, the primary source of ongoing federal K-12 education aid, directs more funding to schools that enroll higher numbers of low-income children.^B This distribution method recognized that

the COVID-19 pandemic was having outsized negative impacts on poorer communities, including the educational services children were receiving in public schools. Contemporaneous research led by Harvard and Stanford Universities, based on state-level testing data, estimates the degree of learning loss experienced by individual school districts across the country during the pandemic. In Michigan, for example, the research shows that the pandemic's negative effects on math and reading scores fell disproportionately in those districts with higher concentrations of low-income students.⁴ This was true for districts across the state, from Grand Rapids to Lansing to Pontiac, where the average student experienced learning loss ranging from two-thirds of a grade level to a full grade level.

Using the Title I formula to allocate federal funds among districts resulted in wide variations in the amount of per-student resources each district received since funding is weighted toward schools with higher proportions of economically disadvantaged students. For example, Detroit Public Schools Community District, the state's largest district with almost 48,000 students and high concentrations of poverty (80 percent of students are considered economically disadvantaged), received nearly one quarter of the state's total allocation. On a per-student basis, Detroit received \$26,000 across all three rounds. However, Flint Community Schools with an enrollment of 3,000 students, received the largest combined per-pupil allocation of any district in the state (\$51,000), in part because nearly all its students are from low-income households (more than 95 percent of students are considered economically disadvantaged).

At the other end of the spectrum, 100 districts, about one in twelve districts statewide, received less than \$1,000 per student in combined formula allocations. Statewide, the average school district received \$3,700 per-student across all three rounds, equivalent to 40 percent of the current annual \$9,150 per-pupil state foundation allowance.

In general, ESSER funds are designed to be very flexible to allow schools discretion in meeting the various student educational, health, and safety needs arising from the pandemic. While regular Title I funds must be used for programs and services benefitting low-income students, districts are

^A The ESSER fund is one of four grant programs created through the CARES Act. K-12 schools also received federal aid from the Governor's Emergency Education Relief fund; however, the focus of this report is the formula funding shared directly with school districts.

^B The U.S. Department of Education determines Title I grants to local school districts based on four separate funding formulas: Basic Grants, Concentration Grants, Targeted Grants, and Education Finance Incentive Grants. The Title I formulas have somewhat distinct allocation patterns, providing varying shares of allocated funds to different types of districts or states. The Basic Grant formula is the primary vehicle for providing Title I funds.

allowed to use the relief funds to serve all children enrolled in school. One notable federal requirement tied to ESSER-ARP; districts must spend at least 20 percent of their funds to address student “learning loss”. To gain access to the federal money, districts were required to apply to the Michigan Department of Education and document how their planned spending met federal guidelines and aligned with prescribed allowable uses.

While nine of every ten ESSER dollars went to districts based on Title I allocations, the remaining funding was reserved to the state government to fund other education priorities. Of Michigan’s \$5.8 billion in total ESSER funding, \$5.2 billion (90 percent) was shared with the state’s 800-plus school districts (traditional and charter) while the remaining \$580 million (10 percent) was reserved for state officials to appropriate at their discretion.

For the last round of funding, the 10-percent state set-aside amounted to around \$370 million. The state budget allocated nearly the entire amount of these discretionary resources to provide “equalization payments” (or “11t payments” in this report referencing the relevant section of state law) to ensure all districts received at least \$1,093 per-pupil in American Rescue Plan Act funding.^C Districts’ use of their equalization payments had to align with the allowable uses of the ESSER-ARP formula dollars.

With the once-in-a-lifetime federal funds flowing to schools, this report provides an update on how quickly districts are exhausting these resources, examines how the funding is changing the near-term fiscal landscape for several public schools, and discusses the potential fiscal cliff that some districts may face when the federal dollars expire in late 2024.

^C “Equalization payments” were provided to 223 districts to supplement their ARPA formula funds.

Staggered Deadlines and Statewide Spending Picture

As noted, the relief dollars came with few strings attached; however, schools were required to meet spending deadlines attached to each tranche of funding. By setting these deadlines, the federal government is trying to ensure funds are spent expeditiously and that the bulk of the spending helps those students enrolled in K-12 schools when the pandemic caused the greatest disruptions to their learning and well-being. For this reason, unspent dollars at the deadline will revert to the U.S. Treasury. Of course, as the final deadline approaches, Congress has the authority to extend it to provide additional time for schools to exhaust their allotments, as has already been suggested by some in education circles.

With the first deadline (September 2022) in the rearview mirror and the next one on the horizon (September 2023), schools are still sitting on massive amounts of federal aid. This is largely from the last installment (ESSER -ARP) received in early 2022.^D

^D These dates are deadlines for districts to “obligate” their federal funding, while actual expenditures may occur later. Obligating federal funds involves committing funding (e.g., contract) to the purchase of goods or services. Actual spending on goods and services may occur after the obligation deadline during a period of liquidation. For the purposes of this report, the term “spending” is used interchangeably with the term “obligating” except where noted.

This final round of aid has a September 30, 2024, deadline.^{E,F}

Statewide, school districts spent \$342 million (98 percent) of the total \$350 million allocated to them

^E In May 2022, the U.S. Department of Education provided guidance to states that local schools could have an additional 18 months to liquidate ESSER-ARP obligations on construction projects. Originally, schools had until the end of January 2025 to liquidate funds that were obligated by September 30, 2024. The liquidation extension means that schools will be able to spend their obligated funds through April 2026 for eligible projects.

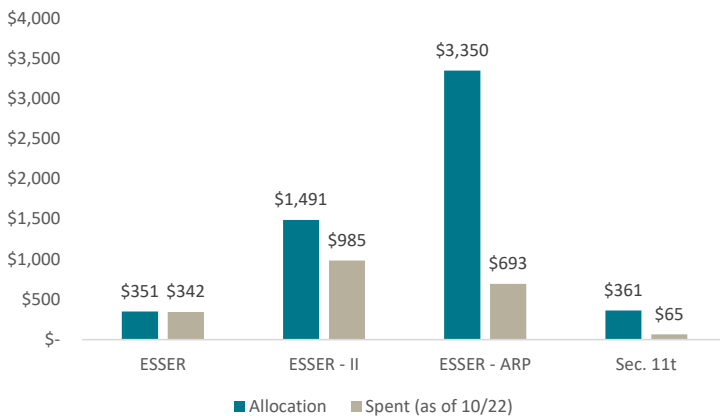
^F Although Congress approved the American Rescue Plan relief funding in early 2021, most Michigan schools did not gain access to these funds until early 2022 because of timing issues related to legislative approvals and state department approvals.

All ESSER funds had to be appropriated within the state budget before they could be made available to districts. For ESSER-ARP, this did not occur until late July 2021. The Michigan Department of Education started processing district ESSER-ARP grant applications in mid-September 2021; however, many districts did not complete the application and gain access to their money until the Spring of 2022. The delay in securing grant approval may be a contributing factor for slow ESSER spending in some parts of the state.

under the CARES Act.⁶ It is expected that this overall spend-down rate will increase as districts liquidate their obligated funds beyond the September 30, 2022, deadline. In general, **Chart 1** details the gross amount of spending, by round, as of the end of the 2021-22 school year. However, the state data provided does not convey what has been purchased with the federal dollars.⁴ Detailed spending data for the 2021-22 school year, including the use of ESSER dollars from each round, will not be publicly available until early 2023.

Chart 1

Statewide ESSER Allocations and Spending by Round, as of October 2022 (\$ millions)



Source: Research Council analysis of data from the Michigan Department of Education

While schools have nearly exhausted their CARES Act funding, spending tied to the later rounds is still ongoing. Michigan schools have spent two-thirds (\$985 million) of the \$1.5 billion ESSER-II funds allocated to them, leaving them with another \$500

⁶ Because ESSER is a federal grant program, it operates on an expense reimbursement basis. This means districts are reimbursed by the Michigan Department of Education with the federal dollars as they incur eligible expenses. This can create a delay between what districts report being spent and actual reimbursements. It is also important to note that federal law allows schools to claim reimbursement from each pot of aid for COVID-related expenses incurred going back to the beginning of the pandemic. This provision effectively created a 55-month spending period for ESSER-ARP funding, from March 2020 through September 2024.

⁴ Data used in this report was provided by the Michigan Department of Education. We received a spreadsheet of district-level spending as October 2022 for each ESSER funding.

million to spend before the September 2023 federal deadline.

In addition to these funds, districts still have large shares of their American Rescue Plan Act allocations to exhaust before they reach the federal “use-it-or-lose-it” deadline. Michigan schools have been slow to spend these allocations as their focus has been on drawing down funds provided in the first two rounds. This “first-in, first-out” spending approach makes sense given the wide latitude schools have with programming the federal dollars and the staggered deadlines associated with each round.

The updated district-by-district spending data shows that schools, collectively, spent about 20 percent of their formula allocations from the American Rescue Plan Act. As of October, schools claimed reimbursement for just \$693 million of the \$3.4 billion from the ESSER-ARP and only \$65 million of the \$361 million in equalization payments. Combined, this leaves schools with nearly \$3.0 billion of their third-round funding to spend by September 2024.

In total, Michigan schools spent roughly \$2.1 billion (about one-third) of the combined \$5.6 billion made available to them in the last two rounds. This amounts to 38 percent of the total ESSER formula allocations, leaving districts with \$3.5 billion to spend across the next few school years to address the various student educational, social, and emotional challenges arising from the pandemic. To provide some context surrounding this remaining balance, the \$3.5 billion is equivalent to two times the total federal funding Michigan schools receive on an annual basis.

From a national perspective, Michigan’s overall spend-down rate of 38 percent is in the middle of the pack among all states. According to U.S. Department of Education, only school districts in three states had spent 50 percent or more, while a handful of states had exhausted less than 20 percent of their total ESSER funds as of September 2022.⁵ Most states, including Michigan, report that their school districts have spent between 30 percent and 40 percent of their total funding. Also notable from the federal data is the fact that all states are employing a “first-in, first-out” spending approach; schools are tapping into the earlier rounds and leaving large balances in their ESSER-ARP allocations.

Pace of Individual Districts’ Spending

Spending rates of individual school districts vary greatly. In general, for those districts with smaller per-pupil allotments, programming and spending the one-time money in a timely fashion has not proved to be too much of a challenge. However, for those districts that received very sizeable per-pupil amounts, the pace of spending is much slower.

To assess how quickly individual districts are spending their federal education aid, **Chart 2** highlights the distribution of spending rates for ESSER-II (blue bar) and ESSER-ARP (gray bar) funds. Roughly a quarter (223 districts) of all districts had exhausted their ESSER-II funding, while 60 percent (479 districts) had spent at least 75 percent of these dollars. Overall, most districts appear well on their way towards spending down their ESSER-II dollars, although 73 districts still have 75 percent or more of these funds to program before they hit the September 2023 deadline. Not surprisingly, several of these districts also have their full allocation of ESSER-ARP dollars available to spend. Again, showing that schools are employing a “first-in, first-out” spending approach.

For the last and largest round of federal aid, only a small fraction of districts (112 districts) had exhausted 50 percent or more of their ESSER-ARP dollars as of

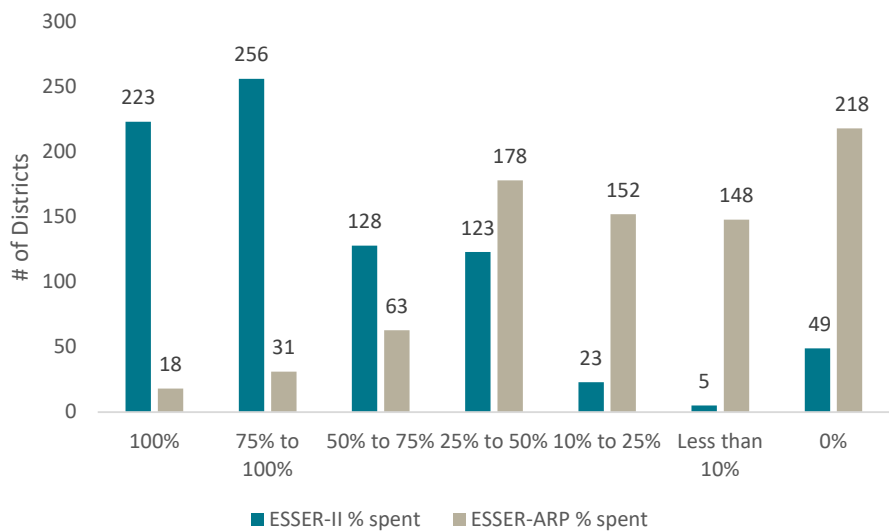
October 2022. And roughly two-thirds of all schools (518 districts) had spent 25 percent or less of their allotments. Most concerning is the fact that nearly a quarter of Michigan schools (218 districts) had not touched any of their allocations. In other words, these districts have 100 percent of their largest per-pupil allotment to program.

Combining all remaining pots of federal funding available provides a more comprehensive picture of districts’ overall spending rates to date (see **Chart 3** on page 7).

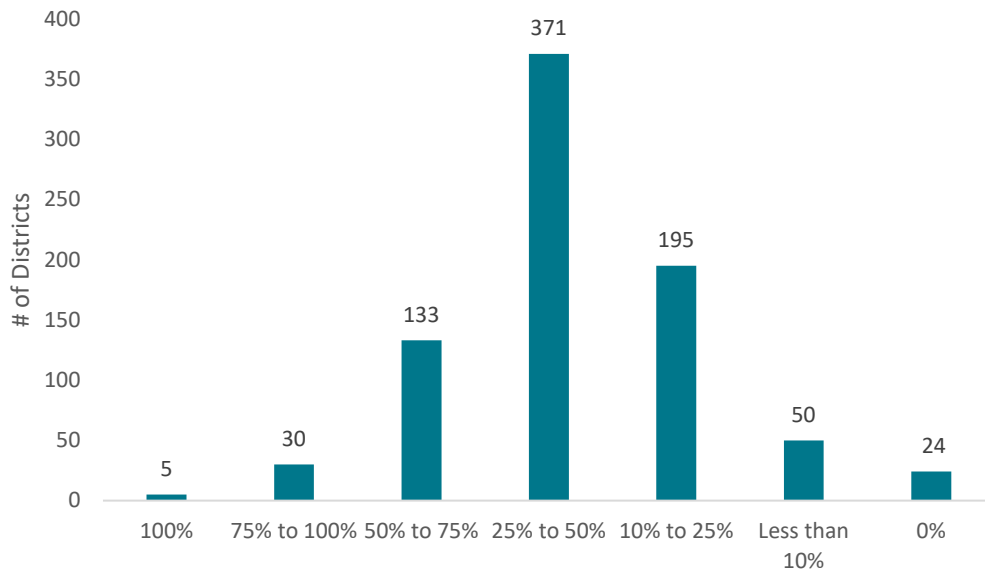
Based on an aggregation of district-level spending to date, nearly one in five districts (168 districts) have drawn down 50 percent or more of their available funding. This leaves districts with another 50 percent of their combined federal awards from the last two rounds to be spent over the current and next two school years. However, a much larger subset of schools (371 districts) has drawn down between 25 percent and 50 percent of their ESSER funds and thus has between 75 percent and 50 percent of their total allocations still to spend.

Slow spending is a cause for concern for a handful of districts. Notably, 24 districts have not touched any

Chart 2
District-Level ESSER Spending by Round (percent of allocation)



Source: Research Council analysis of data from the Michigan Department of Education

Chart 3**Combined District-Level ESSER Spending (percent of allocation)**

Source: Research Council analysis of data from the Michigan Department of Education

of their designated funding, while another 50 districts still have 90 percent or more of their federal aid available to spend. Keeping in mind that districts received wildly different per-pupil amounts, these spending rates only tell part of the story because some of these districts received much smaller allocations. For example, of the 74 districts that have spent 10 percent or less of their allocation, remaining per-pupil balances range from \$28,500 in Benton Harbor to \$1,110 in Armada Public Schools. Among this group of very slow spending schools, the median district has a remaining per-pupil balance of roughly \$4,100.

However, some of the slow spending districts are also the ones that received the largest per-pupil formula allotments. This means they have very large per-pupil balances remaining before the federal deadline hits.

Chart 4 (on page 8) identifies those districts that received the largest per-pupil allotments and their current spending rates.¹ Specifically, it shows spend-

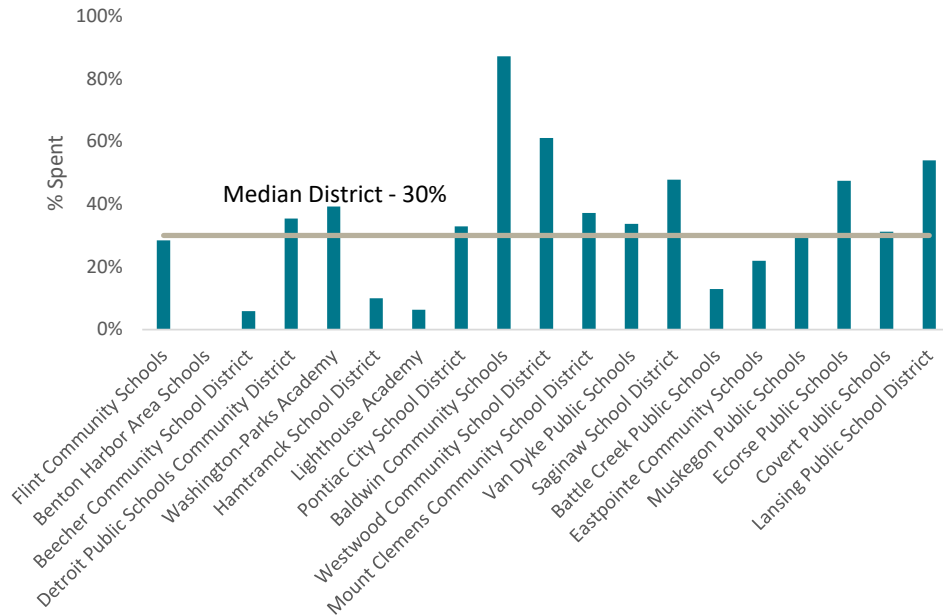
ing rates for districts that received at least \$10,000 per student in total formula aid and compares each district's rate to the median district spend down (30 percent). Aid amounts received range from \$51,200 per-pupil in Flint to \$10,300 per-pupil in Lansing.

Overall, the story about the pace of ESSER spending is a nuanced one. In the big picture, it appears that many schools are on a path to exhaust their federal allotments before they hit the obligation deadline tied to each round of aid. Generally, those districts that received larger formula allotments have the most spending ground to make up over the coming years. For a handful of schools, however, the combination of large per-pupil allocations and slower spending to date means they still have access to massive amounts of federal aid to program to address students' educational and health needs arising from the pandemic. Again, absent federal action to extend the spending deadlines that accompanied these stimulus funds, districts risk leaving money on the table and being forced to return all unspent dollars to the federal government.

¹ Chart 4 excludes small districts (fewer than 100 students enrolled in fall 2021) as their per-pupil ESSER allocations were very large.

Chart 4

Combined District-Level ESSER Spending (percent of allocation), Districts Receiving at Least \$10,000 Per-Pupil



Source: Research Council analysis of data from the Michigan Department of Education

Status of District ESSER Balances

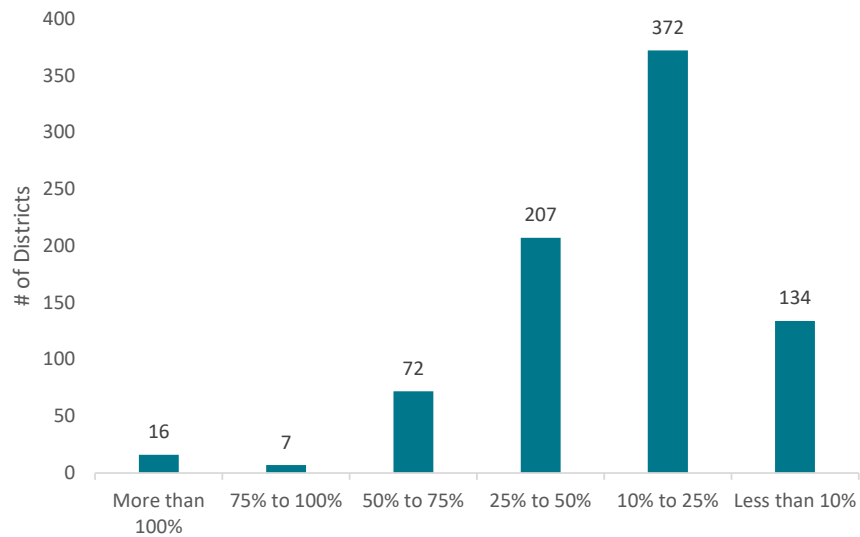
Thus far, this report has provided background information and an update on state and district-level spending of the nearly \$5.8 billion federal relief funding injected into Michigan K-12 schools across three rounds of aid. From here, the report pivots to examine districts' remaining ESSER balances and how these unspent federal funds factor into schools' near-term fiscal future.

The total \$3.5 billion of unspent federal aid is not equally distributed. Rather, there is wide variation in remaining ESSER balances among the Michigan's 800-plus public schools. Recall, the formula dollars were not distributed on an equal per-pupil basis, but instead based on a district's federal Title I allocation - a program that directs larger sums to districts with higher levels of student poverty. This resulted in wildly different per-pupil amounts among schools and therefore different spending decisions and rates. As such, a substantial share of the total unspent ESSER funding is concentrated among a small subset (about 12 percent) of the state's schools. Not surprising-

ly, these are the districts that received the largest per-pupil allotments. With large remaining balances, these districts have considerably more work to do before the money expires in September 2024.

To provide additional context beyond current district-level spending rates and to better compare remaining ESSER balances across individual districts, each district's per-pupil balance is assessed relative to the current-year \$9,150 per-pupil foundation allowance and reported as a percentage. This percentage effectively represents the remaining balance available to spend before the September 2024 deadline as an approximate proportion of each district's annual state per-pupil operating funding. The foundation allowance is the single largest funding source for school operations and a general benchmark for annual funding amounts.^J

^J It should be noted that schools receive additional amounts of federal, state, and local revenue to support their operations, but the use of most of those dollars is restricted either by federal or state formula.

Chart 5**District ESSER Balances (percent of foundation allowance)**

Source: Research Council analysis of data from the Michigan Department of Education

Using the foundation allowance as a measuring stick, **Chart 5** shows that 715 school districts have balances of \$4,575 per pupil (50 percent of the foundation allowance) or less. Of this group, 506 districts (nearly two-thirds of all districts) have per-pupil ESSER balances that equate to 25 percent (\$2,288 per-pupil) or less of their per-pupil foundation allowance. With the staggered spending deadlines in front of them, this amounts to a maximum of \$1,144 per-student each year over the current school year (2022-23) and the upcoming year school year (2023-24) for these schools to spend.

At the other end of the distribution, just a handful of districts are sitting on very large ESSER balances – greater than 50 percent of the foundation allowance. Notably, 16 of these districts have more than \$9,150 per student in federal aid to spend before the September 2024 deadline. In other words, they have an amount of federal funding equivalent to an entire annual foundation allowance for each student enrolled. Another 79 districts have at least half this amount to program in their budgets over the coming years.

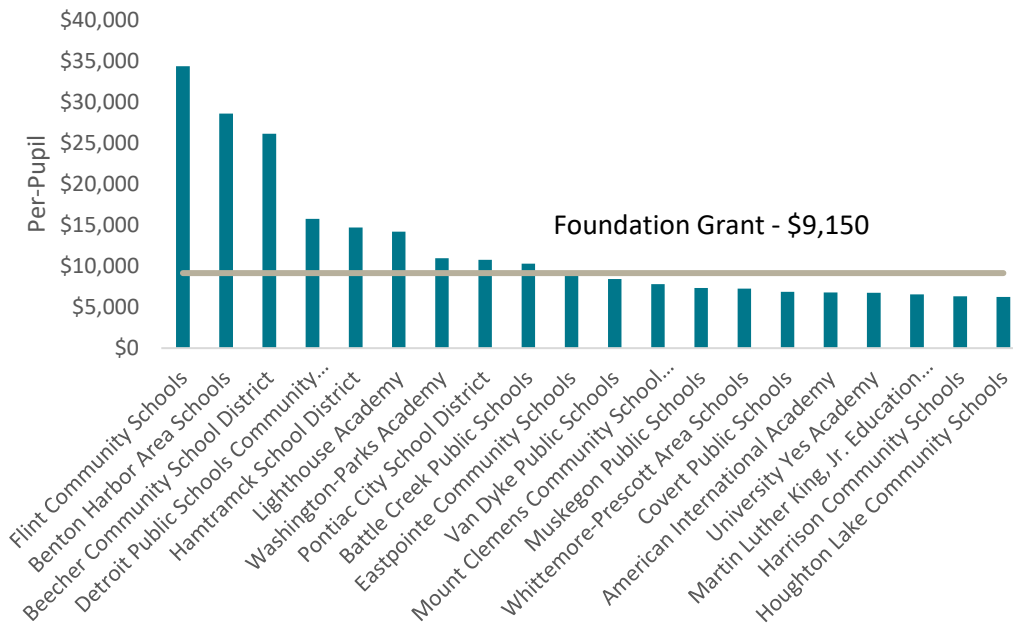
The sizeable per-pupil balances, combined with the fact that many of these schools have large student enrollments, means that these 95 districts account for most of the total unspent federal aid in Michigan. In total, this subset of schools has \$2.3 billion of the total \$3.5 billion in unspent federal aid. These districts comprise approximately 12 percent of all districts in the state, but they account for nearly seven of every ten unspent federal relief dollars. Collectively, this grouping enrolls just under 160,000 of the total 1.4 million K-12 students enrolled in all public schools.

This grouping consists of several urban districts that enroll high proportions of low-income students, including Flint, Benton Harbor, Detroit, and Muskegon. Students that have been disproportionately impacted by the pandemic. **Chart 6** (on page 10) highlights the 20 districts with the largest per-pupil ESSER balances as of October 2022.^K The per-pupil amounts range from \$34,000 (three times the foundation allowance) in Flint Community Schools to \$6,200 (two-thirds of the foundation allowance) in Houghton Lake Community Schools.

^K Again, as before, the analysis (**Chart 6**) excludes smaller districts (fewer than 100 students enrolled in fall 2021) as their per-pupil ESSER allocations were very large.

Chart 6

Top 20 School Districts with Unspent ESSER Funds



Source: Research Council analysis of data from the Michigan Department of Education

Strategic Spending Challenges for Those Districts with the Largest Balances

With the next ESSER deadline roughly eight months away (September 2023) and large amounts of one-time money still available, a small fraction of school districts face the challenge of determining how to use their remaining relief funds to address the unique demands of the COVID-19 pandemic without leaving budgetary holes when the temporary dollars expire. In effect, schools will have to manage through the impending fiscal cliff that develops when the ESSER dollars are no longer available and school spending must be reduced to align with available on-going funding. In addition to meeting the ESSER spending deadlines and managing the potential cliff, school budgets are under pressure from other forces, including student enrollment declines, inflation, and the looming specter of recession. These trends, especially the fiscal challenges arising from enrolling few students, are likely to affect some of these districts more than others.^{L,6}

^L For example, declining student enrollment has been a challenge for many K-12 schools long before the pandemic because of ongoing demographic trends and increased student participation in inter-district schools of choice programs. Because schools

In examining the near-term fiscal future facing districts with large remaining ESSER balances, it must be noted how their current financial situation differs from the last time the federal government injected billions of relief dollars into Michigan's K-12 schools. This go-around, the size of the potential fiscal cliff facing individual districts will vary greatly compared to their experiences following the Great Recession. In the 2011-12 school year, all school districts in the state confronted the same fiscal cliff resulting from a uniform \$470 per-pupil funding reduction.

In response to the Great Recession of 2008, the state received \$1.5 billion (\$1.8 billion in today's dollars) for public K-12 education under the federal American Recovery and Reinvestment Act (ARRA)

are funded largely from the per-pupil foundation allowance, steady annual declining enrollment is a significant problem for districts because the foundation allowance funding that is lost with few students exceeds the reduction in costs districts experience from the loss of students. In other words, a loss of enrollment typically decreases costs only slightly, whereas the forfeited foundation grant revenue from losing a student is relatively substantial.

of 2009. This entire amount was deposited in the state's School Aid Fund to make-up for a reduction in the amount of state education tax revenues collected resulting from the economic slowdown. To address state budget challenges, the state reduced operating funds to K-12 schools by \$470 per pupil and then appropriated the federal ARRA dollars to districts on an equal per-student basis, in effect replacing, dollar-for-dollar, the state dollars that each school would have received to support their current operations.

In this way, the ARRA funds were not used to supplement existing K-12 programs and services delivered by local schools, but rather to supplant state dollars in their operating budgets. As a result, when these one-time federal funds dried up the next fiscal year, every school district in the state had to take a \$470 per-pupil reduction in their operations funding (about \$600 in today's dollars) since the state funding cut was maintained.⁷ This created a fiscal cliff scenario where schools did not have the on-going funding to support their current service levels. Local responses to the funding cut varied with some schools dipping into their rainy day funds to make up for the funding holes over the short term. Others reduced their recurring spending levels through operational efficiencies or program cuts, while many relied on a combination of spending cuts and rainy-day funds to maintain budget balance in the wake of the loss of the one-time ARRA dollars.

Another key difference from the Great Recession is the fact that over the course of the COVID-19 pandemic dedicated state and local school revenues grew at annual rates exceeding inflation. This has allowed state investments in K-12 schools to reach historic levels in recent years. The Senate Fiscal Agency reports that state funding in the state K-12 education budget increased from \$13 billion pre-pandemic to \$17 billion for Fiscal Year (FY)2023.⁸ As a result, schools have been able to support their current operations with these on-going resources. And, in contrast to the Great Recession period, schools were not forced to rely on their one-time federal aid to keep budgets whole.

To be clear, the federal pandemic aid flowing to districts since 2020 did not arrive in a fiscal vacuum. The unprecedented amount of revenue did not come *in place of* the regular on-going funding schools re-

ceive, but rather *on top of* those resources. With the loss of the one-time ESSER dollars, some Michigan schools face the prospect of another fiscal cliff as early as the 2024-25 school year. But, unlike the across-the-board funding cuts that all schools faced following the Great Recession, the magnitude of the next cliff will vary because schools received different per-pupil amounts.

Furthermore, the timing and magnitude of a prospective fiscal cliff will be contingent on how schools budget their remaining ESSER balances over the next couple school years. If the one-time resources are used for non-recurring expenses, such as one-time staff bonuses, additional technology, updated textbooks, new curriculum, or building improvements, the cliff will be less severe when the federal dollars expire in late 2024. That is because schools will not face the cost pressures to continue spending on these items.

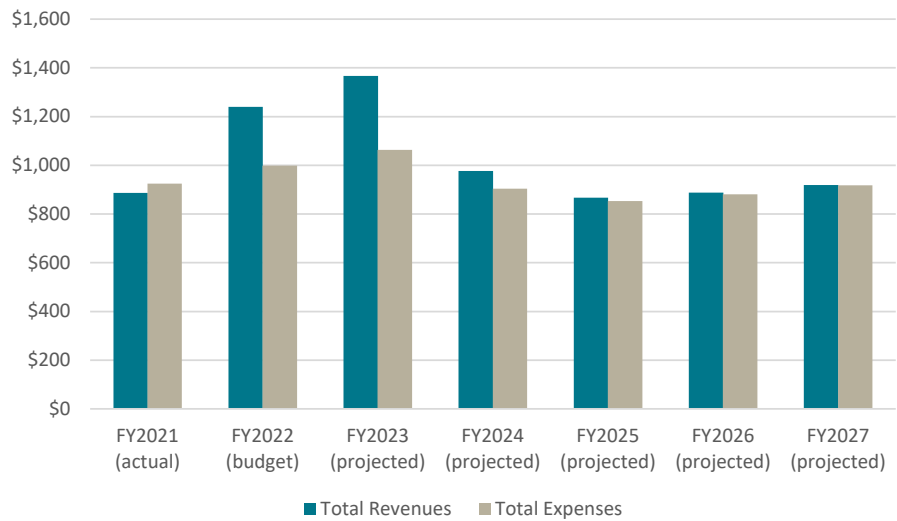
But, if the remaining resources are budgeted for on-going, recurring expenses, such as increases to base staff salaries, adding new staff and expanding existing programs, then a fiscal cliff will be unavoidable when the federal dollars run dry. Without those dollars in their budgets, school leaders will be forced to cut employee pay, layoff staff, or eliminate programs.

Consider the situation facing Detroit Public Schools Community District and the fiscal cliff it anticipates when the federal dollars expire. The district is expected to receive a total of \$1.2 billion from ESSER. It has programmed nearly \$500 million in its operating budgets for FY2022 through FY2024 to ensure safe, healthy learning environments and to address the profound learning losses experienced by students. The remaining \$700 million will go to support one-time investments in its capital improvement program over the coming years.

By using a substantial portion of the one-time federal resources to support staffing and other ongoing expenses, the district's annual operating spending ramps up to \$1.1 billion by FY2023 (see **Chart 7**). However, with the expiration of the federal funds in 2024, total spending will fall back to \$905 million in FY2024 and then to \$854 million in FY2025. The depletion of these funds, combined with several an-

Chart 7

Detroit Public Schools Community District Budget Forecast (\$ millions)



Source: DPSCD, Five Year Revenue and Expenditures Projection

anticipated cost increases (e.g., energy, transportation, supplies), creates a spending cliff that will necessitate future budget cuts.

Currently, DPSCD anticipates that it 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. According to a recent report shared with the Financial Review Commission, school leaders have begun notifying the affected personnel that their positions will be eliminated.⁹ It should be noted that Detroit students were some of the last in the state to return to in-person learning and COVID-19 disruptions had an outsized impact on them. The impending staffing reductions may come at the expense of the district’s ongoing efforts to address students’ pandemic-related academic recovery. This may require the district to reduce or eliminate tutoring, enrichment, and after-school programs funded with the federal dollars.

Michigan schools face many of the same fiscal challenges confronting schools across the country coming out of the pandemic. A national survey of school administrators conducted in mid-2022 identified the key headwinds schools confronted deploying their ESSER funds. These challenges include administrative hurdles, talent shortages, and insufficient strategic planning and operational capacity.¹⁰

The survey highlighted that nearly three-quarters of school leaders said they had struggled to overcome administrative hurdles to receiving funds, navigating compliance, and finalizing procurement. As noted above, schools must apply for funds from the state education departments and document how their planned spending meets federal guidelines and allowable use criteria. The rollout of states’ application process to access the latest round of ESSER funding, in combination with the time involved with gaining state approval, slowed district spending in some cases.

Sixty percent of survey respondents cited talent shortages, both in staffing and in sourcing quality vendors and suppliers, as a contributing factor to slow spending. It has been widely reported that schools are seeing an increased demand for teachers, tutors, and mental-health professionals arising from the pandemic. Even before the pandemic, there was clear evidence that certain districts across the state (e.g., urban and rural), as well as specific classrooms (e.g., special education), were challenged in finding sufficient qualified staff to fill classroom vacancies.¹¹ For some K-12 school positions, the pandemic has exacerbated an already-difficult labor shortage picture, including more staff resignations and early retirements for many schools.¹²

Next Steps - Local and State Responses

With nearly a year and a half left to exhaust their one-time federal funds, schools have sufficient time to ensure all remaining ESSER funds are strategically allocated to programming that will improve student outcomes by addressing immediate learning delays as well as long-standing challenges and opportunity gaps. This may require some schools to increase their spending rates or risk leaving dollars on the table. For those districts with large balances to spend, some of the remaining time should be spent evaluating the progress made with their spending to date. Schools have an opportunity to revisit existing investments and identify what is working, as well as what is not working, to address student needs and to make the necessary course corrections to ensure future federal spending generates the greatest returns for Michigan children.

For most districts, spending plans for ESSER-ARP funds were developed early in the 2021-22 school year and well before any actual spending of these resources had occurred. As noted above, schools focused on spending their allotments from the two earlier rounds first. Further, ESSER-ARP plans were crafted before national, state and benchmark assessment data for 2021-22 were available. Now that that critical information is available, it should be used to inform investments going forward, including in the development of school budgets for next two years.

While attention to the most up-to-date assessment data is an imperative, changing course mid-stream may require school officials to take the pulse of their local communities to see what is working and not working. One condition of the ESSER-ARP funding was a requirement that schools engage in “meaningful consultation” with a host of stakeholder groups (students, parents, teachers) in the development of their initial spending plans. This requirement, not part of the early funding rounds, ensured that schools were attentive to local input in plan development. So, it makes sense that if schools are going to make any course corrections that they re-engage with stakeholders to ensure their voices are heard.

Any pivots in the use of these federal funds may require re-opening currently approved school budgets.

Michigan schools are just now beginning their budget development process for the 2023-24 school year and certainly they can use it to fine-tune their thinking about future ESSER spending. They also have a portion of the 2024-25 school year to spend down the federal dollars and address student recovery needs before the September 2024 deadline.

Finally, state policymakers should take note of the amount of federal relief funds that schools still have at their disposal and, just as importantly, which districts have the largest balances remaining. This information should be factored into upcoming state budget decisions to ensure that future state School Aid Fund investments in K-12 schools are appropriately leveraged to address the educational recovery needs of all Michigan school children affected by the pandemic. Where appropriate, state funds should focus on filling in the funding gaps for those schools that did not receive large allotments of federal relief funding and on supporting those schools where students are furthest behind academically and developmentally.

Currently, Michigan’s budget has a projected \$4.1 billion state School Aid Fund surplus for FY2023. These resources are over-and-above what schools are currently slated to receive on an ongoing basis. Approximately \$1.4 billion of the surplus is considered on-going funding that could be used to finance enhanced recurring K-12 spending priorities (e.g., increases to the per-pupil foundation allowance and/or categorical state allotments) without creating a fiscal cliff in later years. This amounts to approximately \$1,000 per K-12 student. The remaining \$2.7 billion surplus is one-time revenue accruing to the School Aid Fund. Because these are not on-going resources, the \$2.7 billion surplus should most appropriately be designated for one-time expenditures to avoid a fiscal cliff. On a per-pupil basis, there is nearly \$2,000 in one-time funding to share with K-12 schools across the next couple fiscal years.

With roughly \$3,000 per K-12 student in combined School Aid Fund surplus dollars available to appropriate for K-12 education in the current FY2023 and/or the FY2024 state budgets, state officials should ensure that these resources are used most economi-

cally and efficiently. This may require them to allocate these state dollars, especially the one-time resources, to those schools with fewer federal resources to spend. As noted above, there are 95 school districts with the largest ESSER balances available (e.g., at least one-half of their \$9,150 per-pupil foundation allowance). These districts, specifically, will face the same spending challenges (e.g., tight labor markets for teaching and other school personnel, vendor availability, and supply chain delays) programming surplus School Aid Fund dollars. For example, research shows that tutoring is a highly effective way to increase achievement, especially for low-income students most impacted by the pandemic.¹³ However, Michigan schools are finding it very difficult to recruit adequate numbers of sufficiently trained tutors to staff-up the intensive tutoring programs they want to implement.

If state officials want the one-time state surplus dollars programmed to help students immediately (which they should), then they should avoid designating substantial sums to those schools that currently have large per-pupil ESSER balances to spend. That would simply create a scenario where spending decisions surrounding the use of state dollars effectively compete with decisions around the use of the remain-

ing federal resources. And, without specific spending deadlines attached to state surplus dollars, it can be expected that many schools will just hold any new one-time state dollars in reserve while working to exhaust their remaining federal relief dollars. This will likely result in schools using the state resources to further grow their budget reserves and rainy day funds for future use – a fiscal maneuver that does not help students today with their educational recovery.

This has been an emerging trend that several districts have turned to with the use of the first two rounds of federal relief aid.¹⁴ Amidst a swelling tide of state K-12 funding flowing to schools since the onset of the pandemic, schools have been able to take advantage of the flexibility surrounding the allowable uses of their one-time federal resources and supplant their regular state funds with their time-sensitive federal dollars. By doing so, they have been able to hold in reserve their discretionary general fund dollars, and, if effect, extend the amount of time they have to spend the additional relief dollars they are receiving. There is no reason to expect districts to change course in the future, especially if the State of Michigan provides them with an additional \$2,000 per-pupil in one-time surplus School Aid Fund dollars.

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