Fiscal Cliff or Soft Landing? Exploring District Responses to Expiring COVID-19 Relief Funds

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The Policy Context for ESSER Funds

In response to the COVID-19 pandemic's harmful effects on schools, the federal government allocated approximately $190 billion to K-12 educational entities from March 2020 to March 2021 via the Elementary and Secondary School Emergency Relief (ESSER) Fund (Addonizio, 2021; Beverly et al., 2021). These resources, "the largest one-time infusion of federal funds ever" in K-12 education, made a substantial impact on district finances and allowed administrators to invest in their students, educators, buildings, and communities in previously unimaginable ways (Aldeman, 2024).

There was a catch, though. Funds were only available to be spent from their authorization until a September 2024 deadline to be obligated. As districts got closer to this cutoff, concerns spiked that "the abrupt ending of federal pandemic relief funds, falling district enrollments, and slowing state revenues" could create a "perfect storm of financial chaos" for K-12 institutions, generating an "ESSER fiscal cliff" with "serious implications" (Roza & Silberstein, 2023).

Our Research Questions and Approach

While tight Michigan school budgets are not new, given decades of "inadequate and inequitable" funding, there were credible concerns that the proximate cause of this reported crisis could be unprecedented (Arsen et al., 2019; Delpier & McKillip, 2023). Thanks to funding from the Michigan Applied Public Policy Research (MAPPR) Grant Program from the Institute for Public Policy and Social Research (IPPSR), we explored the extent to which Michigan K-12 institutions faced an actual or perceived ESSER fiscal cliff regarding staffing. From there, we identified how some districts avoided financial peril and how others responded to newly-felt scarcity after a period of relative but temporary ESSER-related abundance.

From our surveys, we heard from 78 unique districts' superintendents or expert administrators that represented around 20% of Michigan's allocated ESSER funds. Then, we dug into representative districts' experiences via twelve interviews with district leaders and the Michigan Department of Education (MDE).

Our Findings: Is There An ESSER Fiscal Cliff? How Are Districts Responding?

1

"We knew that [ESSER] was ending. So, we had continued to prepare people and let everybody know…we're also going to…see what was worth our while, what we need to continue."

Financially, **districts were mostly ready for the cliff**, with 95.8% reporting feeling prepared. Further, there was no spike in districts reporting being "not" or only "somewhat" stable compared to before federal funding (29.6% pre-ESSER versus 30.0% post-ESSER).

2

But **ESSER's end sharply impacted districts**. 92.3% said funds had a "moderate" or "substantial" impact on budgets, and during ESSER, the share of districts reporting being "not" or only "somewhat" stable dropped to 10.0% (it was 29.6% pre-ESSER and 30.0% post-ESSER).

"[ESSER funds] were very needed for a time, a very difficult time. That helped us do great amounts of things and get kids educated."

3

"We're going to be maximizing classes as well as eliminating some positions… to kind of help with the cost because… we will not be able to afford some of the tools that are making a difference."

And **the deadline brought an experiential cliff** where districts pulled back to balance budgets, even if they did not yet have mass layoffs. 76.8% took actions like not posting or eliminating roles, cutting bonuses, reducing other costs, or relying on long-term subs due to constraints.

4

Finally, **austerity will intensify**. Comparing their 25-26 budgets to 24-25 ones, a greater share of respondents expected to not post positions (53.3% to 66.1%), eliminate roles (41.7% to 57.1%), cut other costs to offset losses (26.7% to 39.3%), and reduce staff benefits (8.3% to 25.0%).

"25-26, we're going to have to do some pay freezes…we're going to be minimizing our summer school program this year, and we're going to do what we can to keep our mental health supports."

Our Findings: What Factors Influenced Perception of An ESSER Fiscal Cliff?

We also explored why only some districts reported expecting financial instability concerning staffing post-ESSER. Of the 69 Michigan districts who self-reported their level of financial stability exclusively regarding staffing going forward, 47 of them (68.1%) felt they would be "mostly" or fully "stable." 22 (31.9%) predicted they would be only "somewhat" or "not at all financially stable." For each group, we identified ESSER-specific and structural reasons for anticipated (in)stability.

Concerning these ESSER-specific explanations for districts' expected financial state in terms of staffing:

- Struggling districts pointed to ESSER's "one-time nature" but their "recurring needs" (71.4%), competition across districts for educators as ESSER-funded bonuses drove salaries to an unaffordable level (57.1%), general labor market challenges (52.4%), unmitigated pre-ESSER "financial distress" (28.6%), and legal restrictions (28.6%).[2]
- Financially stable districts credited their stability to avoiding spending on recurring expenses (51.1%), finding other resources and grants like federal Title and state At-Risk funds to fill in for ESSER before its deadline (51.1%), and engaging in intensive strategic planning before utilizing their grant allocations (48.9%).[3]

When it came to structural factors explaining different experiences:

- Struggling districts flagged increased expenses (90.5%), enrollment declines (85.7%), and insufficient state per-pupil funding (66.7%), which inversely aligned with stable districts' experiences of pre-existing stability (68.1%), reduced expenses (27.7%), enrollment increases (25.5%), and sufficient state funding (19.1%).[4]
- Many district leaders also pointed to deepened needs brought on by the COVID-19 pandemic.

Policy Recommendations

From our analysis, we developed these recommendations for K-12 administrators, state policymakers, and federal leaders:

District Leaders:

1. Review administrative capacity to manage new funds and comply with grant oversight requirements
2. Explore allowable grant uses, including any supplement, not supplant provisions
3. Utilize information hubs to navigate grant-related uncertainty
4. Engage in routine strategic planning
5. Identify new grants to fill in for expiring ones when recurring expenses are unavoidable
6. Communicate regularly with internal and external stakeholders

State Policymakers:

1. Consider what ESSER-era practices could be sustained with added and more equitable funding
2. Appreciate districts' varied ability to avoid spending on recurring expenses
3. Meet districts where they are when providing guidance (e.g., their availability, pre-existing trust, capacity, expressed community desires, and past funding)
4. Continue to facilitate the cross-district sharing of data and best practices

The Federal Government:

1. Identify which ESSER-era practices advanced student achievement and examine the power of federal resources to advance these initiatives
2. Be mindful of added student and educator needs post-COVID and whether communicated priorities trade off with others
3. Provide certainty of funding timelines and rules, including any extension waivers
4. Balance the need for oversight with the administrative burden it generates

Author Notes

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[2-4] Districts could select multiple explanations for their current state. Hence, responses do not sum to 100%.

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