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Congress Need Not Panic: Debunking Fears of a "Fiscal Cliff" as School Districts Face ESSER Spending Deadline

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KEY TAKEAWAYS

Federal funds allocated to public schools during the pandemic were intended as one-time spending to address added costs such as remote learning and tutoring.

Following a period of economic growth and federal stimulus aid during the COVID-19 pandemic, many states and public school districts are flush with cash.

Congress need not panic about the ESSER "fiscal cliff" of which some are warning, as districts' resource levels are higher despite serving fewer students.

Public school districts received an unprecedented influx of federal taxpayer funds in the wake of the COVID-19 pandemic that ultimately exceeded actual needs, yet teachers' unions and certain education interests are demanding even more federal funds to sustain their emergency budget increases indefinitely. Starting in March 2020, across three federal appropriations, Congress allocated nearly $190 billion[1] in new spending for K–12 schools, the largest infusion of federal education funding[2] in U.S. history. This $190 billion was in addition to the routine federal spending that public school districts receive, dwarfing their typical (pre-pandemic) annual appropriation of roughly $70 billion.[3]

The last of the three appropriations of federal COVID-19 spending was from March 2021, under the American Rescue Plan (ARP) Act. Many have argued that districts did not need that last tranche of federal spending.[4] Nevertheless, pressure from the public school establishment and others[5] are once again calling for a new influx of taxpayer spending, under the guise that public school districts are facing a "fiscal cliff" as these pandemic-era dollars are exhausted.[6] In reality, district schools are more flush with cash than they have ever been. Rather than continuing this federal spending spree, districts must halt an ongoing staffing surge and better prioritize existing resources.

Background

The first two waves of Elementary and Secondary School Emergency Relief (ESSER) spending—$13 billion in ESSER I, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and $54 billion in ESSER II, the Coronavirus Response and Relief Supplemental Act (CRRSA)[7]—have already expired, and the ARP ESSER funds are set to run out by the end of January 2025. Districts could apply for an extension, extending their spending deadline until the end of March 2026. The ARP Act allocated around $130 billion specifically for K–12 schools, nearly double the U.S. Department of Education's discretionary budget[8] in 2020. Districts were required to obligate ARP ESSER funds by the end of September 2024 or risk forfeiting them back to the U.S. Treasury.

While all ESSER funds had to be obligated by September 30, 2024, a significant portion of these funds remain unspent. Nearly $26 billion[9] in ESSER funds (ESSER I, ESSER II, and ARP ESSER) remain unused, with 10 states sitting on at least one-fifth[10] of their allocations. In the District of Columbia, only 64 percent[11] of funds have been used, and in Maryland and Nebraska close to 30 percent[12] of funds remain untapped.

The federal funds allocated during the pandemic were always intended as temporary, one-time spending to address the added costs of remote learning, health and safety measures, and learning recovery programs. Congress should not be overly concerned about the so-called fiscal cliff that some school districts are warning about, especially given that many states still have substantial funds left to spend. Some U.S. Representatives, in response to the concerns, have co-sponsored legislation to continue "the funding that had flowed to schools across the country under Elementary and Secondary School Emergency Relief."[13] For example, Representative Ilhan Omar (D–MN) recently said, "We cannot afford for funding to fall back to pre-pandemic levels. We know if school funding increases, academic outcomes improve."

This *Issue Brief* offers five reasons why this concern with the "fiscal cliff" is misplaced:

1. Higher Property Tax Bases. From March 2020 to August 2024, median home prices surged 25 percent,[14] and rents rose by 24 percent.[15] Given that local property taxes are a primary funding source for most school districts, higher property tax bases from residential properties and commercial real estate provide more than the typical local revenue with which districts are supported. Moreover, commercial property values have increased by more than 3 percent this year.[16] This increased revenue from property taxes may increase school funding, neutering the calls for continued elevated levels of federal spending. Higher home values also translate into a more robust and resilient local tax base, enabling school districts to absorb fiscal challenges without needing additional federal or state dollars. These local dollars will go further as most public school districts have experienced significant enrollment declines since 2019.[17]

2. Healthy Reserves Pre-Pandemic. Many school districts also built up reserves before the pandemic in anticipation of economic downturns or fiscal challenges. These reserves were designed to provide a cushion in difficult times, so districts entered the pandemic relatively well-prepared to handle temporary financial disruptions. For example, the unspent end-of-year fund balances per student (adjusted for inflation and not earmarked to pay for capital or debt service) were $4,111 in 2020 compared to $2,976 in 2007.[18] In Pennsylvania, school districts were stockpiling cash to weather an economic downturn and entered the pandemic "with more than $4.5 billion in reserve funds."[19] Their rainy day funds have also increased by 145 percent since 2006.[20]

3. School Districts Likely Padding Reserves Further. ESSER funds have allowed school districts nationwide to "bundle remaining funding into comprehensive infrastructure projects that will reduce costs and stabilize budgets for years to come."[21] For infrastructure projects, such as building maintenance or purchasing hardware and software, school districts would have incurred these expenses now or in the future, so these uses of ESSER funds can allow them to increase their reserves with state or local money that would have otherwise been required for these purchases. These projects may also improve efficiency and lower future operational expenses, meaning that districts are not only padding their reserves but are also preparing for a more financially stable future. A school district in Missouri used ESSER funds to finish a "comprehensive facility enhancement project," in which it modernized HVAC equipment at four district facilities that will save it nearly $4 million over 15 years.[22]

In addition, federal lawmakers allowed states and school districts flexibility in how to use the federal pandemic monies allocated to them. The CARES Act, for instance, allowed "schools to save more of their federal spending for children from low-income families until next year" and waived some "restrictions on purchasing learning technology," among other things.[23] This flexibility enabled school leaders to use taxpayer resources more imaginatively, adapt to changing conditions, and prepare for future years without federal funding boosts.

4. Decades-Long Public Staffing Surge. The number of staff employed by public schools across the U.S. has increased significantly over the past seven decades. This increase in staff consists largely of non-teaching positions, such as administrative, support, or specialized staff, which has outpaced both student enrollment growth and the increase in classroom teachers. Considering only recent decades, according to the National Center for Education Statistics (NCES), from fall 1990 to fall 2019, the number of district administrators increased by 141 percent, and the number of "All Other Staff" (who are not administrators or teachers) increased by 63 percent.[24] These increases took place during a 33 percent increase in teachers and a 23 percent increase in students.[25] Adding all these personnel increases together, the number of total staff employed by public school districts increased by 49 percent, *which is more than double the increase in students*.

This significant increase in administrative and support roles has raised concerns about inefficient spending and bureaucratic growth within public schools. School leaders must optimize existing resources and streamline operations by reducing non-essential positions or considering scaling back non-essential administrative roles, particularly those that have grown disproportionately over time. They can do this without affecting student outcomes, as the increase in staff is related to administrative and support roles rather than direct instructional staff, such as teachers.[26]

Public school districts did prioritize the hiring of teachers, at least at the beginning of the pandemic. The data from NCES[27] also show that between fall 2019 and fall 2021, the number of district administrators declined by 6 percent, "All Other Staff" declined by 2 percent, student enrollment declined by 2.7 percent, and the number of teachers increased by 0.5 percent. This means that public school districts had fewer staff per 100 students in fall 2021 than in fall 2019 but had significantly more than in fall 1990.

As time passed, many districts used ESSER funds to hire additional staff, which permanently increased their overall operational costs.[28] Between fall 2021 and fall 2022, districts added over 160,000 personnel.[29] Thus, fall 2022 staffing was over 100,000 higher than fall 2019.[30] Those monies were never intended to sustain long-term staffing increases. Some districts may need to re-evaluate whether they should maintain similar staffing levels since ESSER spending deadlines are near and student enrollments have declined.

5. States Are Flush with Cash. Many states are flush with cash following a period of economic growth and federal stimulus aid during the COVID-19 pandemic. According to the National Association of State Budget Officers (NASBO), state rainy day funds “reached an all-time high of $164 billion in fiscal year 2022.”[31] In addition, NASBO has reported that

> 33 states are on track to further increase the size of their rainy-day fund balances in fiscal year 2024. The median rainy day fund balance as a percentage of spending is expected to increase from 12.3 percent in fiscal year 2023 to 13.2 percent in fiscal year 2024 and 15.0 percent in recommended budgets for fiscal 2025.[32]

This means that states should be able to weather possible economic downturns and feel confident in their abilities to fund K–12 education spending, which is often one of the largest categories of expenditure in a state’s budget.

Conclusion

Concerns over an impending “fiscal cliff” for public school districts as federal ESSER funds near their expiration are misplaced. Many states have not fully used the substantial federal aid provided during the pandemic. At the same time, they have bolstered their reserves, completed long-term projects, and benefited from rising home values. Most state budgets are flush with cash, with record-high rainy-day funds, positioning them to absorb any future financial challenges. Districts also have an opportunity to streamline non-essential administrative roles and optimize existing resources for students and teachers—especially given that most districts are serving fewer students. In this post-pandemic environment, school districts are well equipped to maintain financial stability without additional federal taxpayer spending.

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