6 Key Factors to Assess Every District’s Risk of an Upcoming Fiscal Cliff

We know that some states face a more complex challenge when it comes to managing the end of ESSER. Depending on how much money you received and the distribution of poverty in your state, you may be facing a very steep cliff when relief funding officially expires on September 30, 2024.

But what does that picture look like for individual school systems within each state? As districts close their books and release financial statements for Fiscal Year 2023, now is a great opportunity to explore this question and act early.

We considered trends in ESSER spending in dozens of districts across the country and explored historical data to identify six key factors that indicate whether a particular district might be at greater risk of an upcoming fiscal cliff. These indicators will help states understand where districts stand—and how to better support those high-risk districts in planning for long-term sustainability.

[anchor links to each indicator]

1. Large ESSER allocations
2. Increased teacher salaries
3. Increased staffing levels
4. Change in per-pupil funding
5. Limited unrestricted fund balance
6. Unspent ESSER dollars

**Indicator 1: Large ESSER allocations**

The federal government distributed COVID relief funding for K-12 education to states using the same formula that determined ESEA Title I funding, and states used this same formula to distribute those funds to school systems. This means that districts serving more students in poverty—one significant indicator of student need—received more ESSER revenue to re-engage students and mitigate learning loss.

When you compare the amount received to a district’s overall revenue, it becomes clear that ESSER represented an enormous increase for some districts: as much as 40% or more. For these districts, the expiration of ESSER funds is a considerable change in their overall financial picture.

How to measure it: District’s total ESSER allocation as a percent of pre-pandemic operating revenue

**Indicator 2: Increased teacher salaries**

Districts that invested in programs or initiatives with recurring costs will face a greater challenge adjusting to decreased revenue than those who prioritized one-time or non-recurring investments. At the top of the list when it comes to recurring costs that are difficult to dial back: compensation.
Many districts invested in teacher salaries to keep pace with rising inflation and retain staff amidst growing hiring challenges. Teacher salaries are often the largest recurring expense school districts face and serve as bellwether for salaries of other positions. School districts that increased teacher salaries will see their baseline operating costs increase. When it becomes more expensive for school districts to maintain their existing services, it becomes more difficult to find ways to reduce spending.

**How to measure it:** Average teacher salary compared to pre-pandemic baseline, controlling for any changes in teacher population

**Indicator 3: Increased staffing levels**

Many districts across the country used their ESSER dollars to pay for positions. In some cases, this has meant funding new or additional staff in schools, such as social workers or literacy coaches. Other districts used ESSER dollars to avoid eliminating positions despite declining enrollment to better ensure staffing stability during a very tumultuous time. In either case, when ESSER comes to a close, districts will be forced to eliminate any positions they can no longer sustain, which will cause significant disruption in the system.

**How to measure it:** Number of students per Full Time Equivalent (FTE) in FY24, compared to pre-pandemic baseline

**Indicator 4: Change in per-pupil funding levels**

Districts receiving more per-pupil funding from the state or local levels will be more insulated from the effects of ESSER dollars going away. States such as Tennessee, Maryland, and Massachusetts, for example, have adjusted their funding formulas in ways that direct more dollars to public school districts, especially districts serving students with greater needs and expecting larger declines in revenue once ESSER funds expire. Other districts have raised additional funding locally to offset the loss of ESSER revenue.

Districts whose state and local per-pupil funding levels remain similar to pre-pandemic baseline levels will have to make more significant reductions in spending or rely on reserves to maintain investments and smooth reductions in spending over time.

**How to measure it:** Per-pupil revenue from state and local sources in FY24, compared to pre-pandemic baseline

**Indicator 5: Limited unrestricted fund balance**

Many school districts have the ability to carry forward un-spent revenue as a fund balance to spend the following year. In some cases, these dollars are earmarked for future expenses, however, some districts—depending on state or local regulations—have fewer limitations. This is an “unrestricted” or "unassigned" fund balance.

**Why does this matter for ESSER?** Districts with fewer limitations on general fund balances have more flexibility on how they spend down ESSER—and how they might sustain ESSER investments in the future. For instance, districts with relief funds left to spend might use that money to cover general operating expenses now and carry forward their excess general fund balance to spend on strategic recovery efforts next year. This isn’t a permanent solution, but the additional flexibility can allow districts to make gradual reductions over time instead of making cuts in a single fiscal year as the official ESSER obligation deadline approaches.
How to measure it: Unrestricted fund balance at the end of FY23, as a percent of annual operating expenditures

Indicator 6: Unspent ESSER dollars

As the window to obligate relief dollars draws to a close, it will become more difficult for school systems and states to invest remaining funds in ways that are both impactful and sustainable. Those with large amounts of money left to spend in FY24 are at greater risk of investing in recurring expenditures with limited time to plan for long-term sustainability, or of prioritizing quick one-time investments that are designed more to spend quickly than spend well.

This challenge may be mitigated in some districts by large unrestricted fund balances (see above), but many districts may simply be looking for ways to spend the money—and fast. While there are still strategic ways to invest remaining ESSER dollars, those spending large amounts close to the deadline are at more risk of facing an unwelcome fiscal cliff.

How to measure it: Total unspent ESSER III funds as of the end of FY23, as a percent of pre-pandemic annual operating expenditures

Example district-level view of indicators

Taken together, these indicators suggest that districts’ current structures aren’t sustainable—especially given that districts will still face the challenge of re-engaging students, increasing learning, and moving beyond pre-pandemic levels toward transformative, long-term change. As district and state leaders explore ways to understand and address sustainability, they have an opportunity to do so not just to preserve current structures, but to support radically better models of schooling to meet the needs of all students.

What can states do?

1. Start by measuring these and any other indicators of long-term financial health to identify and begin directing support to districts at risk of a steeper ESSER funding cliff. These indicators can be assessed using data already collected by many states. Where this is not true, states may want to collect new or additional data directly from districts. This data will ensure that leaders have critical information to support districts in planning for long-term sustainability.

2. Provide guidance and support for districts with ESSER dollars left to spend. While many have already accounted for remaining funds, spending may continue to fall below budget estimates. States can help districts expedite modifications to their ESSER plans and highlight sustainable, evidence-based
investments that are still possible - especially for districts ending Fiscal Year 2023 with significant unspent funds.

3. Support districts in maximizing their remaining resources to invest in areas that sustain long-term impact. We explored a few ways states can do this, including changing their laws and regulations to create more flexibility to carry forward funds in fund balance, providing guidance to districts on reserving funds to smooth long-term spending, and ensuring there is support and accountability for the use of funds carried forward.

4. Increase state revenue to help smooth the cliff. As one example, the state of Tennessee passed the Tennessee Investment in Student Achievement (“TISA”) Act, which revised the state funding formula and resulted in increased state revenues for districts. The TISA Act especially increased revenues for those serving students with greater needs—the same districts likely to face bigger declines in revenue as ESSER funds expire. This could also look like innovation funding to provide districts with resources to invest in transformative redesign efforts. States experiencing a net decline in K-12 enrollment can increase per-pupil funding without increasing their total investment in education.

5. Explore pre-approval processes for late liquidation. According to the US Department of Education, under some circumstances, ESSER-funded activities may continue after the obligation and liquidation period—such as pre-paying for multi-year licensing contracts. While districts and states await more clarity from the US Department of Education about the process for approval of these requests, states can begin developing their own processes and policies for late liquidation to make things easier for their districts in the coming year.