FEDERAL FUNDING UPDATES

The End of ESSER

School Districts Navigate the ESSER Fiscal Cliff

BY ISABEL MU

The expiration of Elementary and Secondary School Emergency Relief (ESSER) funds presents yet another hurdle—or rather, a fiscal cliff—that districts must cross as they still try to recover from the challenges posed by the pandemic. Funding provided by ESSER—the largest one-time federal relief grant to districts across the country—has addressed pandemic-related needs and stimulated learning recovery. But these emergency relief funds sunset in September 2024, so what will happen to the districts that invested dollars in recurring costs? And what about those that have embedded ESSER dollars so deep within their general funds that they risk succumbing to budgetary shortfalls?

How are districts spending ESSER dollars?

ESSER was authorized by the federal government's economic stimulus response bills. Between March 2020 and March 2021, $189.5 billion of unprecedented emergency relief funds were disbursed across three rounds: ESSER I (Coronavirus Aid, Relief, and Economic Security Act), ESSER II (Coronavirus Response and Relief Supplemental Appropriations Act), and ESSER III (American Rescue Plan Act). These funds were allocated to state education agencies (SEAs) based on their share of Title I-A funding, and subsequently to local education agencies (LEAs) including public and charter school districts. As with most federal grants, state and local spending plans were subject to approval by the U.S. Department of Education. For ESSER III, specifically, at least 20 percent of funds needed to address learning loss.[1]

Districts across the country have used ESSER to add new staff positions, increase salaries, support social-emotional learning, streamline virtual learning, develop summer programs, lengthen school days or school years,

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and expand tutoring opportunities for students. To date, 99 percent of ESSER I and ESSER II funds have been spent, while only 76.7 percent of ESSER III were spent. States and school districts had until September 30, 2024, to obligate ESSER III funds.[2]

The first round of ESSER was designed to uphold equity among high-poverty LEAs and districts. When schools shut down abruptly in 2020, many districts faced an unprecedented challenge of closing academic achievement gaps. Students from low-income households, who lacked access to digital devices and reliable Internet service, were noticeably underperforming compared to students from high-income backgrounds. As a result, ESSER I was heavily invested in remote-learning technologies, mental health services, and support for underserved communities.

ESSER II and ESSER III funds were mainly dedicated to educational acceleration rather than remediation. This included helping school districts reopen safely, developing high-quality instructional materials, and offering supplemental learning opportunities (for example, tutoring, after school programs, and summer programs). Additionally, states and districts used ESSER dollars to fund labor positions—raising salaries, giving retention bonuses, and increasing staffing levels.[3]

Assessing the effectiveness of ESSER funds

Student achievement in K-12 schools suggests that ESSER dollars were used effectively. First, federal relief funding boosted students' math and English Language Arts (ELA) performance. Studies show that for every $1,000 in per pupil spending, math scores rose by 0.5 to 2.0 percent of a standard deviation; ELA scores rose by 0.1 to 2.0 percent of a standard deviation. Secondly, the disbursement of aid based on poverty helped narrow achievement gaps between low and high-poverty districts. The ones that received more than $8,000 per pupil in ESSER dollars had test scores that were nearly six percentile points higher than they would have been without ESSER funding.[4] Likewise, recovery gains were also the most significant in high-poverty districts. In this context, ESSER funds have fulfilled much of their purpose, stabilizing schools and equipping them to face future challenges.

Financial management challenges and the fiscal cliff

The downside to it all is that ESSER was only temporary. Emergency relief funds are not meant to last forever. Designed to help districts address pandemic-related challenges, these funds were never intended to permanently supplement annual budgets. When ESSER dollars fizzled out in September 2024, states had to reconcile a fiscal cliff. There are three main obstacles districts will have to overcome.

Pandemic staffing will be costly to maintain. The federal government cautioned school districts against using ESSER grants on recurring financial commitments, but many did anyway. In states reporting data, half of ESSER III funds have been invested in labor, which means that math and reading interventionists, counselors, and behavioral specialists on the federal dime will likely be laid off unless districts find a way to pay for these positions. Studies estimate that for every additional $1,000 in ESSER allocations, districts sought to hire $206 worth of additional staff that they would not have otherwise pursued.[5] Imagine using a one-time bonus on a downpayment for an expensive home, only to find yourself struggling to make the monthly mortgage payments. This will become the reality for many districts now that ESSER has run dry.

Decreasing public school enrollment will exacerbate some of the issues associated with the sunset of ESSER. The pandemic simply sped up declining enrollment trends that the United States had seen since 2013. Simultaneous staffing increases and enrollment declines have major financial implications. School funding is generally proportional to enrollment or daily attendance. As enrollment drops, many school districts have not adjusted their staffing or budgetary models accordingly. Given the hiring boom under ESSER, the discrepancy between staffing and enrollment has led to a "bloated" organizational structure that cannot be sustained in the long term. Corresponding budget cuts will be needed, and experts expect them to coincide with the sunset of ESSER funds.[6]

State tax cuts will reduce funding for schools. The dissipation of federal relief funds has more serious implications in some states than in others. The states of Alaska, Arizona, Florida, Georgia, Idaho, South Dakota, and West Virginia do not incorporate poverty into their funding formula calculations, implying that losing ESSER funds will have a more profound impact on underserved districts in those states. Moreover, state tax cuts will adversely affect school districts. In 26 states, rate cuts will reduce revenues by $111 billion over the next four years, not only shrinking the amount of money available for schools but for most other public services as well. In West Virginia, North Carolina, and Arizona alone, tax cuts are projected to shrink general funds by as much as 11 percent over the next five years.[7] Many states may need to reverse tax cuts to address funding shortfalls. The expiration of ESSER funds, coupled with uncertain revenue outlooks across states, will likely lead to layoffs, school closures, and scrapped programs—all of which have a detrimental impact on students.

Because of these challenges, high-poverty and rural school districts are anticipating a steeper ESSER cliff than others. High-poverty schools have less flexibility to recover from funding loss and a lower capacity to generate sufficient tax revenues.[8] Since ESSER was designed to help schools with greater needs, those are the schools that will be hit the hardest when money runs out. For example, more than 80 percent of school districts in Mississippi and Louisiana serve high concentrations of low-income students, which makes them extremely susceptible to funding changes.[9] Rural schools will also struggle. Scaling back teacher retention incentives will leave hard-to-staff rural districts back in square one, harming student achievement and equity.[10]

The past four years have revealed structural challenges when it comes to managing money. As the largest federal grant infusion for K-12 schools, ESSER posed difficulties for many states and districts due to its scale and lack of clear spending guidance. When states failed to oversee fund use, the burden fell to unsupported local leaders who were already contending with a host of ongoing crises. Without sufficient guidance and experienced staff, many districts were stretched thin, struggling to balance priorities under intense pressure.

Case studies

Every constituency, stakeholder organization, and public finance professional is grappling with the impending dissipation of pandemic-era funds. Case studies across urban and rural districts offer valuable insight into the strategies local leaders are implementing ahead of the fiscal cliff. Some districts are introducing local taxes to support programs and manage ongoing labor costs funded by ESSER. Others are cutting programs to balance their budget.

DC Public Schools. During the pandemic, District of Columbia Public Schools (DCPS) made use of federal relief funding to expand its workforce by 18 percent—new positions created to address pandemic-related needs. With the ESSER fiscal cliff upon them, city officials announced a 12.4 percent increase in the funding formula to offset workforce reductions, cover pay raises, and stabilize year-to-year transitions—levying $349 million from local sales and property taxes. Moreover, the fiscal year 2025 budget added $4.8 million to support ESSER-funded tutoring and $6.9 million for a new five-year strategic plan. These measures showcase DCPS's resilience against a changing budgetary landscape, as it fights to sustain existing programs and retain staff. Adjusting the funding formula and revising strategic plans exemplify how districts are thinking ahead.[11]

Metro Nashville Public Schools. Metro Nashville Public Schools (MNPS) received nearly $426 million in ESSER funding. Approximately 36 percent was invested in academics to support tutoring programs, social-emotional learning, adaptive intervention, and ensuring equitable outcomes for disadvantaged students. Another 15 percent was spent on strategic staffing and retention initiatives. To ensure stability in FY 2025, MNPS transferred grant-funded programs and positions into the operating budget, requiring an allocation of $13.6 million. Operating funds cover half of those needs, and a one-time bridge covers the rest. The district also requested $22.5 million to uphold curriculum standards. Metro City Council approved a one-time disbursement of $18 million and planned to fill the remaining gap with ESSER funds. Efforts to close budget gaps and support recurring investments are critical to a district's fiscal health.[12]

Chilton County Schools. Chilton County Schools, a district of approximately 8,000 students, made the tough decision to slash its Afterschool Adventures program for the 2024 to 2025 school year. Even though this ESSER-funded program helped at least 500 students recover from learning loss, it is simply too costly to sustain through local taxes. Continuing the program would require 30 percent of the district's entire budget—roughly $200,000 per month—making it financially unviable.[13]

Colorado Springs School District 11. District leaders in Colorado Springs found innovative ways to navigate the ESSER fiscal cliff. District 11 intends to scale back its summer program to fill staff vacancies left by ESSER. District 2 will reallocate recurring financial commitments covered by emergency relief funding to the general fund. During the pandemic, District 2 effectively used ESSER money for one-time expenses such as curriculum and technology upgrades.[14]

As we have seen, school districts are finding innovative ways to adapt to a world without ESSER. Local officials can amend budgets in favor of long-term stability. Even though districts are set to lose a ton of money, the fiscal cliff presents an opportunity for finance teams to root out internal inefficiencies. Consider DCPS, which is redoing its strategic plan to continue providing essential services. Current funding decisions will determine a district's fiscal health over the next two years.

What happens to unspent ESSER dollars?

Any unspent dollars will be returned to the U.S. Treasury; however, the U.S. Department of Education announced in April that SEAs and school districts can request a 14-month extension to liquidate the funds, giving them until March 2026 (previously January 2025) to use their obligated ESSER dollars exclusively on contracted services, including tutoring services, summer programs, and after-school enrichment activities. However, school districts are prohibited from spending late liquidation funds on staff salaries or one-time curriculum and technology purchases. To date, no requests have been denied by the Department of Education.[15]

This extension is partially justified by the slow pace of ESSER III spending. Although it is difficult to pinpoint the exact amount, estimates suggest there are leftover ESSER III funds. Given the variability in spending patterns across districts, granting additional time to spend down existing contracts could be beneficial. On a similar note, allowing states and districts more time to use up ESSER funding may smooth out the fiscal cliff. Adopting multi-year strategies is critical for maintaining fiscal health.

Insights, implications, and recommendations for future planning

The ESSER fiscal cliff will likely lead to million-dollar budget shortfalls in some districts, while forcing others to choose between scrapping effective programs or keeping them. Alternatively, current expenditures could be funded with higher local taxes.

States have an important role to play. They can assess resource gaps and build alignment around best practices. For instance, New Jersey launched a Maximizing Federal Funds website to direct funding towards areas of need, fostering collaboration between LEAs, grant administrators, and district leaders.[16] This resource also helps stakeholders leverage ESSER dollars with other federal funding streams to sustain programs after the relief funds sunset.

Additionally, states can continue supporting ESSER-funded initiatives. For example, the Utah State Legislature appropriated $19 million to support ongoing early literacy outcomes and establish a statewide panel on best practices.[17] In Alabama, state lawmakers are covering costs for ESSER-funded summer learning camps. States may be able to work with districts on finding alternative sources of revenue for pandemic-era programs.

GFOA's Best Practices and Smarter Spending tools are available to help state and local leaders make informed financial decisions. GFOA has five best practices in school budgeting:

1. Plan and prepare
2. Set instructional priorities
3. Pay for priorities
4. Implement plan
5. Ensure sustainability

Schools can make smart budget decisions by following these guidelines. The expiration of ESSER requires districts to be smart about keeping cost effective and successful programs, while eliminating those that don't have a significant return on investment. In other words, school boards and district finance officers must closely examine the programs, positions, and initiatives funded by federal relief dollars to determine whether they leave a lasting impact on student achievement.

Conclusion

Ultimately, public finance professionals must engage in discussions about fiscal sustainability with their own communities. Regardless of demographics, geography, or size, city finance leaders need to be asking their school districts the same questions. Where do you currently stand? Where are you striving to be? How do you get there? How can spending on capital planning, mental health, social-emotional learning, and other second-tier issues be maintained in the next one to two fiscal years? The answer to these questions depends on whether a strong foundation has been established, priorities have been defined, and the right team is in place. As federal relief dollars expire, funding decisions made by current district leaders will serve as critical indicators for long-term success.

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