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Are Our Schools Sick?

The Financial Health of K-12 Public Schools

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Abstract

School districts in America manage their budgets in such a way that they will always be increasing their ask of the taxpayer. Only a small proportion of districts can appropriately be categorized as "financially healthy." Over the 10 years from 2013 through 2022 (the most recent data available), school districts—on average—in the United States have gradually improved in overall financial health. Modest gains from 2013 through 2019 were followed by more substantial gains in post-Covid years, likely driven by federal dollars through the ESSER program. However, recent reports from certain states indicate that school districts' financial health may be in serious jeopardy and on a larger scale than anything in recent memory. This paper analyzes long-term trends in the health of school districts and what may be on the horizon for some whose decision-making—driven by a glut of ESSER funds—took the short, rather than long-term view.

Introduction

School financial health is always a primary concern for lawmakers, district officials, and employees. The exhaustion of the glut of ESSER funds that were distributed in 2020 and 2021 is likely to be the source of much greater concern for those same people in the coming months and years. Could it be time for a DOGE-style dive into school district finances?

The National Center for Education Statistics (NCES) gathers financial data every year on school districts, charter schools, and other education providers in the United States. There are over 13,000 school districts in the country included in the NCES' School District Finance Survey (F-33[1]) datasets analyzed in this report. All school districts were analyzed for 'fiscal health' and categorized as "Healthy," "Somewhat Healthy," "Somewhat Unhealthy," or "Unhealthy." This was done for each year from 2013 through 2022, for a total of ten years. The categorizations are based on the following criteria, and districts are assigned their lowest rating in any category as their overall rating (i.e. a rating of "Unhealthy" in Operating Margin results in an overall designation of "Unhealthy"):

Table 1

Category	Fund Balance Ratio	Current Ratio	Debt-to-Revenue Ratio	Operating Margin
Healthy	≥ 15%	≥ 2.0	≤ 50%	≥ 5%
Somewhat Healthy	5% to <15%	1.0 to <2.0	50% to <100%	0% to <5%
Somewhat Unhealthy	0% to <5%	0.5 to <1.0	100% to <150%	-5% to <0%
Unhealthy	< 0%	< 0.5	≥ 150%	< -5%

[1] National Center for Education Statistics. (2024). *School district finance survey (F-33): Fiscal year 2022*. U.S. Department of Education, Institute of Education Sciences. https://nces.ed.gov/ccd/f33agency.asp

The formulas used to calculate each of these criteria are described in Figure 1, below:

Figure 1

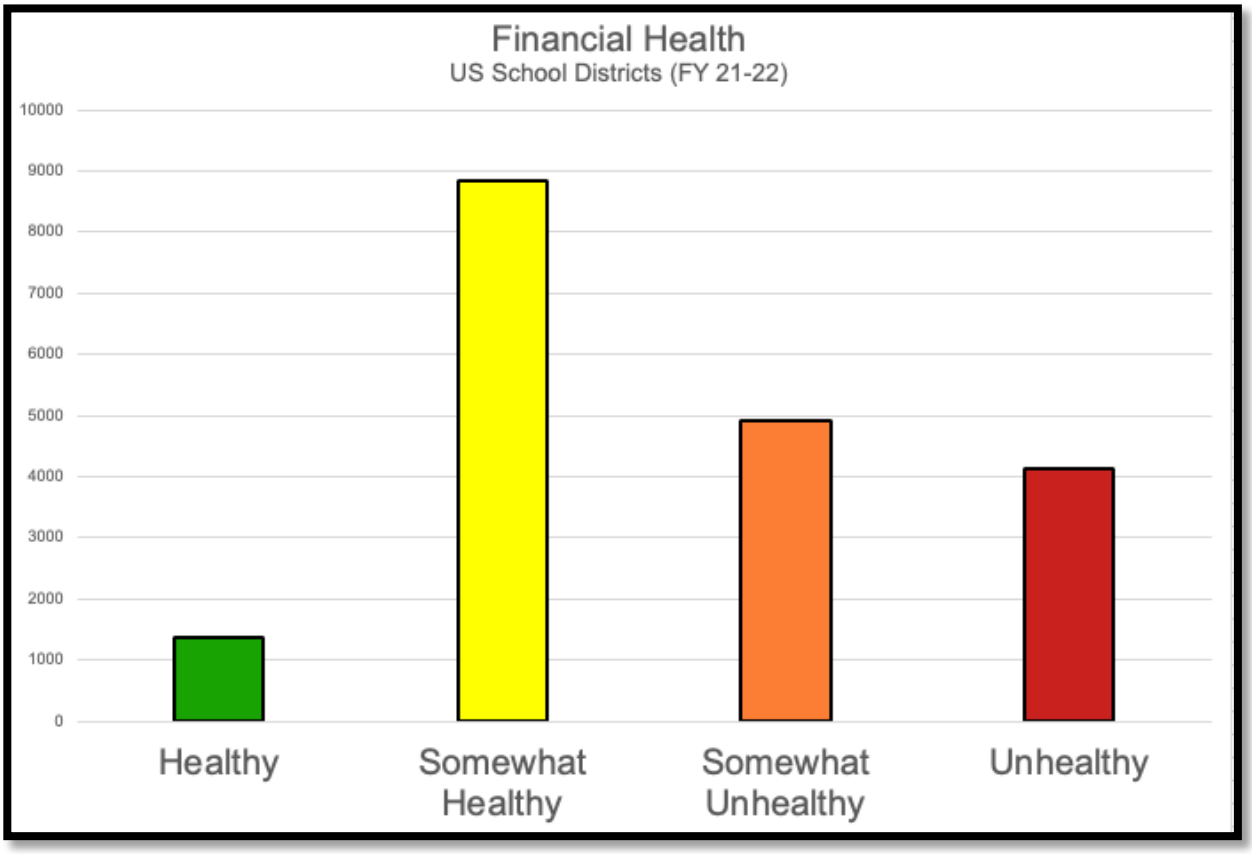
Fund Balance Ratio: $\frac{\text{Total Revenues}-\text{Total Expenditures}}{\text{Total Expenditures}}$

Current Ratio: $\frac{\text{Cash and Security Holdings}}{\text{Short-Term Debt}}$

Debt-to-Revenue Ratio: $\frac{\text{Long-Term Debt Outstanding}}{\text{Total Revenues}}$

Operating Margin: $\frac{\text{Total Revenues}-\text{Total Expenditures}}{\text{Total Revenues}}$

The 2021-22 school year saw a large infusion of extra federal dollars to American school districts. Thus, revenues and cash & security holdings show sharp increases for that year, and, to a lesser extent, FY 2020-21. However, the most recent data, and bad habits pre-Covid, paint a grim picture for many American school districts' financial well-being:



Pre-Covid District Fiscal Health

Prior to the global pandemic, American school districts were largely static in their distribution by financial health. There were very slight gradual decreases in the proportion of Unhealthy districts, measured in hundredths of a percent. But, credit where credit is due, over the course of the seven years pre-pandemic, nearly half of a percent (.45%) moved out of the Unhealthy category. Unfortunately, the increase in Healthy districts lagged behind, only adding .16% more over the same period.

Somewhat Healthy and Somewhat Unhealthy districts increased in proportion and number from 2013-2019. Again, however, calling them "modest gains" would be generous. Increases amounted to less than half of a percent in both categories. If observers chose to call the trends for each category "flat" during these years, they'd be right.

Table 2

Year	Healthy	Somewhat Healthy	Somewhat Unhealthy	Unhealthy	Total Valid Districts*
2013	2,116 (16.05%)	4,453 (33.77%)	3,208 (24.33%)	3,407 (25.85%)	13,184
2014	2,118 (16.06%)	4,456 (33.78%)	3,211 (24.35%)	3,402 (25.80%)	13,187
2015	2,121 (16.08%)	4,459 (33.81%)	3,214 (24.37%)	3,395 (25.74%)	13,189
2016	2,127 (16.13%)	4,463 (33.83%)	3,219 (24.40%)	3,384 (25.65%)	13,193
2017	2,133 (16.16%)	4,466 (33.84%)	3,224 (24.43%)	3,375 (25.57%)	13,198
2018	2,136 (16.18%)	4,470 (33.85%)	3,232 (24.48%)	3,366 (25.49%)	13,204
2019	2,141 (16.21%)	4,476 (33.89%)	3,238 (24.51%)	3,357 (25.40%)	13,212
2020	2,189 (16.56%)	4,495 (34.01%)	3,245 (24.55%)	3,285 (24.86%)	13,214

Year	Healthy	Somewhat Healthy	Somewhat Unhealthy	Unhealthy	Total Valid Districts*
2021	2,223 (16.82%)	4,523 (34.22%)	3,254 (24.62%)	3,214 (24.32%)	13,214
2022	2,253 (17.05%)	4,544 (34.38%)	3,262 (24.68%)	3,045 (23.04%)	13,214

**Some districts are not included due to incomplete or invalid data*

COVID-19 and the ESSER Program

In the wake of the COVID-19 pandemic and the 190 billion federal dollars distributed to school districts through the ESSER program, school district leaders made a variety of decisions regarding how to deploy those funds. Initially, tight restrictions accompanied the funds but those were loosened multiple times to make allowance for broader and broader use by districts. From the outset of the ESSER program, state education agencies and district administrators were informed that the program was temporary and monies would be distributed in phases (ESSER I – March 2020, ESSER II – December 2020, and ESSER III – March 2021).

Each of the phases included deadlines for expenditure of the funds. Funds from ESSER I were to be expended by September 30, 2022, and the next two phases were to be expended by the same date in each consecutive year ending on September 30, 2024. However, an extension can be requested for districts that have money remaining and would like to have more time to spend it. Extensions are allowed up to 14 months and require state and federal agency approval. A 14-month extension would make the amended expenditure deadline November 30, 2025. U.S. Department of Education rules also allow for a “liquidation period” to be added to contracts

entered into prior to the deadline, which adds a maximum of 120 days. So, the last day for any ESSER funds to be expended by a school district in the United States is March 30, 2026.

From 2020-2022 the unhealthy proportion of school districts dropped sharply from 25.40% (2019) to 23.04% (2022), a 2.36 percentage-point reduction in 3 years—over five times the pre-Covid rate. No doubt this dramatic shift, which boosted liquidity and solvency, was due to the ESSER program. Oklahoma (2.54-point drop) and Michigan (2.02-point drop) were among those states with significant declines in the proportion of Unhealthy districts. In 2019, there were 3,357 Unhealthy districts. In 2022, there were 3,045 Unhealthy districts, or 312 fewer. Healthy districts rose from 2,141 to 2,253 during the same period.

Table 3

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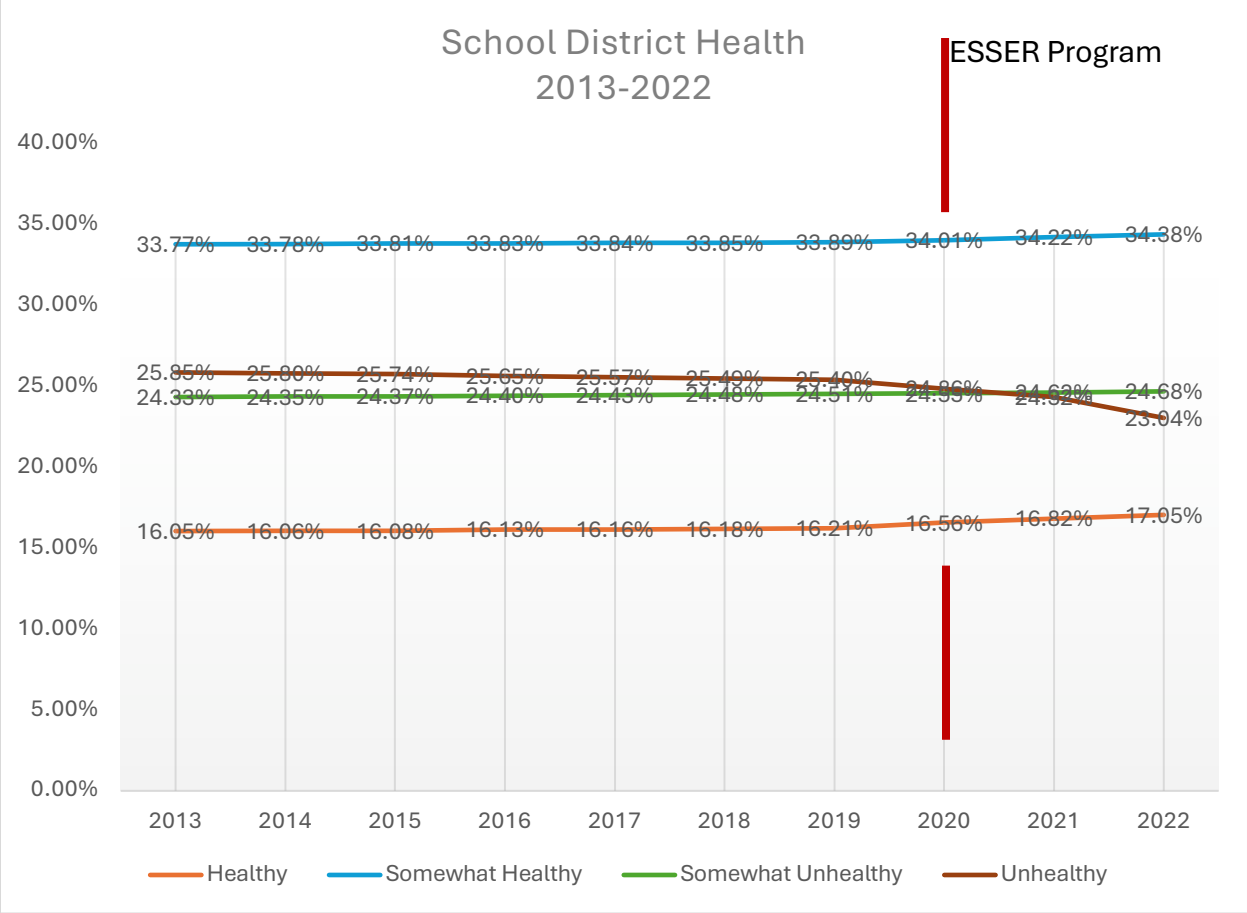
Figure 2



The question for policymakers and school district boards and administrators today is, “how can we sustain and build on this positive trend?” Sadly, we are nearly three years on from the end of fiscal year 2022 and without the data from NCES that can show us how schools have fared since federal funding no longer includes ESSER monies. If state-level data is any indication of national trends, we may be disappointed in the results.

Redirecting Capital Funds

Arizona's Auditor General released a report in January 2025 listing school districts throughout the state that were designated as "Highest Risk" due to their overall poor financial circumstances. Nearly 10% of the state's districts were "Highest Risk" or "Approaching Highest Risk." One of the key indicators that led to this designation was whether or not the district had redirected capital funds to cover operational costs—a poor financial decision absent significant enrollment declines. According to the report, 27 Arizona school districts redirected over half of their capital funds to cover operational costs in 2024. There were 36 school districts that redirected over 40%. The Auditor General designated 47 Arizona school districts as being "High Risk for Capital Monies Redirected to Operations." That's nearly 1 in 5 Arizona school districts.

States like New York (20.3%), California (21%), and Massachusetts (17.9%) have their share of school districts in poor financial health (see Table . Unfortunately, none of them have state administrators that provide information similar to data provided by Arizona's Auditor General to the public.

Spending More Than You Have

For most school districts in America, tens of millions and even hundreds of millions of extra dollars in the form of ESSER payments, ultimately accompanied by very few use restrictions, would present a unique opportunity to set finances right and maybe even prepare for the future. For others, however, ESSER just masked—or even exacerbated—their poor stewardship over

taxpayer funds. Thousands of districts across the country inexplicably continued to spend more than they received, even with the added millions from Covid relief funds. The sudden drop in the number of Unhealthy districts post-pandemic suggests a fragile, artificial stability. Table 4 shows the percentage and quantity of school districts whose expenditures exceeded their revenues. Note that between a quarter and a third of all school districts have more expenditures than revenues year in and year out.

Table 4

Ten-Year Trend (FY 2013–2022)*

FY 2013: 30.29% (3,986 / 13,159)
FY 2014: 29.68% (3,912 / 13,183)
FY 2015: 30.14% (3,975 / 13,189)
FY 2016: 29.74% (3,926 / 13,203)
FY 2017: 29.92% (3,950 / 13,202)
FY 2018: 29.89% (3,944 / 13,194)
FY 2019: 29.87% (3,937 / 13,182)
FY 2020: 29.43% (3,891 / 13,218)
FY 2021: 28.54% (3,777 / 13,231)
FY 2022: 27.81% (3,685 / 13,248)

**Some districts are not included due to incomplete or invalid data*

The billions and billions of extra dollars distributed to districts in 2020 and 2021 results in only 301 schools moving out of the Unhealthy category. This suggests deep and broad fiscal mismanagement in district schools.

There are some districts, nearly 150 of them, that have had more expenditures than revenues in *every single year* for ten years running. Here are the top 20, sorted by 10-year total:

Table 5

LEAID	District	State	Total Overspent ($)
3600020	New York City Public Schools	New York	25,678,901,000
1700020	Chicago Public Schools (Dist 299)	Illinois	7,890,123,000
3200020	Clark County School District	Nevada	3,456,789,000
4200020	Philadelphia City School District	Pennsylvania	3,234,567,000
2600020	Detroit Public Schools Community	Michigan	2,345,678,000
4800020	Houston Independent School District	Texas	2,345,678,000
1500030	Hawaii Department of Education	Hawaii	2,156,789,000
5100020	Fairfax County Public Schools	Virginia	2,012,345,000
1200030	Broward County Public Schools	Florida	1,872,345,000
2500030	Boston Public Schools	Massachusetts	1,678,901,000
2400020	Baltimore City Public Schools	Maryland	1,456,789,000
5500020	Milwaukee Public Schools	Wisconsin	1,456,789,000
1200060	Duval County Public Schools	Florida	1,345,678,000
3700030	Charlotte-Mecklenburg Schools	North Carolina	1,345,678,000
1300120	DeKalb County School District	Georgia	1,234,567,000
3400020	Newark Public Schools	New Jersey	1,234,567,000
5300020	Seattle Public Schools	Washington	1,234,567,000
2100030	Jefferson County Public Schools	Kentucky	1,123,456,000
4700030	Memphis-Shelby County Schools	Tennessee	1,123,456,000

Table 6

State-level Data | Fiscal Year 2022

Source: NCES F-33 School District Finance

State	Healthy (%)	Somewhat Healthy (%)	Somewhat Unhealthy (%)	Unhealthy (%)
North Dakota	12	52.3	20	15.7
Vermont	11.8	52.9	20	15.3
Montana	11.4	50	21.4	17.2
New Hampshire	11.3	51.6	20.7	16.4
Hawaii	11.1	44.4	22.2	22.2
Wyoming	10.9	51.1	21.7	16.3
South Dakota	10.7	50.9	21.3	17.1

New Jersey	10.5	51.2	21	17.3
Massachusetts	10.3	50.1	21.7	17.9
Maine	10.2	49.5	22	18.3
Utah	10	49.7	22.3	18
Rhode Island	9.7	49.3	22.6	18.4
Wisconsin	9.7	49.8	22.4	18.1
Minnesota	9.6	49	22.5	18.9
Nebraska	9.5	49.5	22.6	18.4
Alabama	9.2	45.5	26.8	18.5
Virginia	9.1	48.7	23.5	18.7
Iowa	9	48.5	23.5	19
Maryland	8.9	47.8	24	19.3
Washington	8.9	48.8	23.4	18.9
Kansas	8.7	48	23.7	19.6
Idaho	8.5	48.3	23.7	19.5
Pennsylvania	8.5	48.2	23.9	19.4
Connecticut	8.3	47.9	24.2	19.6
Oregon	8.2	48	24.3	19.5
Indiana	8.1	47.4	24.4	20.1
Missouri	7.9	46.9	24.8	20.4
Georgia	7.8	46.2	25.2	20.8
New York	7.8	47.2	24.7	20.3
Ohio	7.6	46.8	25.1	20.5
Colorado	7.5	46.5	25	21
Kentucky	7.4	46.3	25.8	20.5
Illinois	7.3	46.7	25.3	20.7
Tennessee	7.2	45.9	26.1	20.8
California	7.1	46	25.9	21
Florida	6.9	45.8	26.3	21
Michigan	6.8	45.7	26.5	21
Delaware	6.7	43.3	28.3	21.7
Arizona	6.5	47.6	24.1	21.8
Texas	6.5	45.2	26.5	21.8
North Carolina	6.3	45.2	26.7	21.8
Louisiana	6.2	44.9	27.3	21.6
Nevada	6.1	44	27.3	22.6
South Carolina	6.1	44.8	27.1	22
Arkansas	6	46.3	25.7	22
Oklahoma	6	44.7	26.8	22.5
Alaska	5.9	41.2	29.4	23.5
West Virginia	5.8	42.8	28.6	22.8
New Mexico	5.5	42.5	28.5	23.5
Mississippi	5.1	43.7	28.3	22.9

Healthy: The percentage of districts in this category varies significantly by state, with North Dakota leading at 12% and several states like West Virginia, New Mexico, and Mississippi at the lower end, around 5-6%.

Somewhat Healthy: This is the largest category across all states, with percentages ranging from 52.9% in Vermont to 41.2% in Alaska. This suggests that a substantial portion of districts in each state manage to maintain a moderate level of financial health.

Somewhat Unhealthy: This category shows a range from 20% in North Dakota to 29.4% in Alaska, indicating that about a quarter of districts in most states are facing some financial strain but are not in critical condition.

Unhealthy: The percentage of districts in this category varies from 15.3% in Vermont to 23.5% in Alaska. This highlights regions where financial distress is more pronounced, with Alaska having the highest percentage of districts in this category.

Is a Fiscal Cliff Imminent?

It's not a stretch to predict that the overall poor financial performance of school districts pre-pandemic will return, but with a crash coming off the sugar-high that was fed by ESSER funds. School districts have never been distinguished for their stellar track records in financial management, and it seems reasonable to project that as more data becomes available, we'll see the number of Unhealthy districts jump dramatically.

Proactive management matters. Oklahoma (ranking 5th) and Texas (ranking 1st), overall, have been beating the national trend (in absolute number of districts), though only marginally.

Below are the five states with the most school districts moving out of the "Unhealthy" category over the 10-year period from 2013-2022:

Table 7

Rank	State	Unhealthy in FY 2013	Unhealthy in FY 2022	Districts Moved Out of Unhealthy
1	Texas	261	240	21
2	California	257	239	18
3	Illinois	206	190	16
4	Michigan	157	143	14
5	Oklahoma	113	100	13

Our nation's school districts face a steep fiscal cliff if spending habits persist in the face of the end of ESSER if, for no other reason than, districts retain the large increase in staff that were hired on post-Covid. For example, 20% of school districts reported they used ESSER funds to hire instructional staff to reduce class sizes, and 61% added other non-teaching specialist staff.[2] The long term, slow decline in Unhealthy designations will likely reverse course, maybe even sharply, in the next 2-3 years.

[2] Association of School Business Officials International. (2024, January 31). *ESSER spending survey results*. https://network.asbointl.org/HigherLogic/System/DownloadDocumentFile.ashx?DocumentFileKey=0335fa5e-86af-0e64-0177-a3f8b3121a71&forceDialog=0

Conclusion

School districts' 10-year trend (2013-2022) shows admirable consistency, if not intelligent money management: a peak of financial distress in 2013 (25.85% unhealthy), slow pre-Covid recovery, and a Covid-accelerated improvement to 23.04% by 2022. But, the ESSER program was a lifeline for distressed districts, not a cure. They could have taken advantage of the opportunity they were given to clean up processes and reorganize for sustainability. Unfortunately, few did that. Now, policymakers need to get involved and work to understand the extent of the problems in their states to help districts avoid a looming fiscal cliff.

Lawmakers should start addressing the looming problem now. A first step in this direction should be that state legislators and governors direct their Department of Education or Auditor General to conduct and release an annual audit that assesses the financial health of their school districts. Additionally, the vastly overstaffed school districts should be streamlined and legislatures can encourage this in a number of ways, including limits on funding of non-teaching positions. Non-teaching staff to student ratios can be factored into such a formula, for instance. Other similar policies that don't prohibit the inclusion of such positions, but also don't fund them, should be explored to help districts get their spending in line with their revenues before it's too late. For example, district officials and policymakers can use district staffing data to determine non-teaching-staff-to-student ratios. Based on those findings, the number of non-teaching staff per 100 students can be calculated and districts can then be ranked by their efficiency (within tiers that represent rural, suburban, and urban—or similar—enrollment counts) on this metric. States should only fund non-teaching staff in the top 10% of efficiency. Districts can continue to

employ non-teaching staff in excess of their state funding, but would need to do so at local taxpayers' expense.

It's never too early to get your finances in order, but it can certainly be too late. Every taxpaying citizen and parent in the country hopes it's not the latter.