Education Practice

From surplus to scarcity: K–12 districts brace for leaner years

Declining enrollment and funding, rising costs, and increasing student needs are putting public school districts under pressure. Our latest survey reveals K–12 leaders' concerns and reactions.

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School districts across the United States are facing an increasingly uncertain funding environment. Most of the temporary COVID-19 stimulus funding has been spent[1]; federal actions are affecting funding, enrollment, and district priorities; and states face myriad funding demands beyond education. Rising inflation is driving up the costs of health insurance, utilities, transportation, food, and classroom supplies. Meanwhile, the demands for funds are ever-rising—learning gaps persist, student mental health challenges are growing, teachers are seeking salary increases that reflect inflation, and aging facilities desperately need upgrading.

In light of this challenging context, McKinsey surveyed more than 300 K–12 leaders to understand how they plan to respond over the next three school years (see sidebar, "About the survey"). This article uses the results of that survey to answer four interrelated questions:

— How will K–12 funding evolve at the federal, state, and local levels?

— How will overall K–12 spending levels adapt to funding shifts?

— What will districts prioritize for spending, and how will they deal with tough trade-offs?

— Given financial pressures, how will outsourcing evolve?

This article discusses the broader context in which leaders in K–12 districts are making financial decisions and describes how these conditions are informing leaders' concerns, expectations, and strategies.

K–12 funding: Districts face upcoming funding and enrollment challenges

School district financing is determined by per-pupil spending at the federal, state, and local levels as well as district enrollment. Both elements are under pressure, yet many district leaders haven't fully recognized the potential worst-case scenarios.

Per-pupil funding

In general, K–12 school districts are in for another couple of tough years. Based on historical trends, recent legislation, and third-party estimates of the likelihood of a recession, the McKinsey School Funding Model projects that per-pupil spending in traditional public and charter schools could remain flat in nominal terms for the 2025–26 and 2026–27 school years before picking back up to grow with inflation in 2027–28. Considering that current inflation rates are about 3 percent,[2] this trajectory represents a decline in the real (inflation-adjusted) per-pupil dollars available to districts (Exhibit 1). Put another way, if funding remains flat but the cost of everything increases, districts will effectively have less money to spend.

About the survey

Conducted in July 2025, this survey is McKinsey's fourth annual survey of district leaders, gathering views from more than 300 administrators in K–12 public and charter school districts in the United States. Participating administrators either provide input into a district's school year budget or are decision-makers who set the budget. Respondents include superintendents, chief academic officers, chief technology officers, and chief business and operations officers.

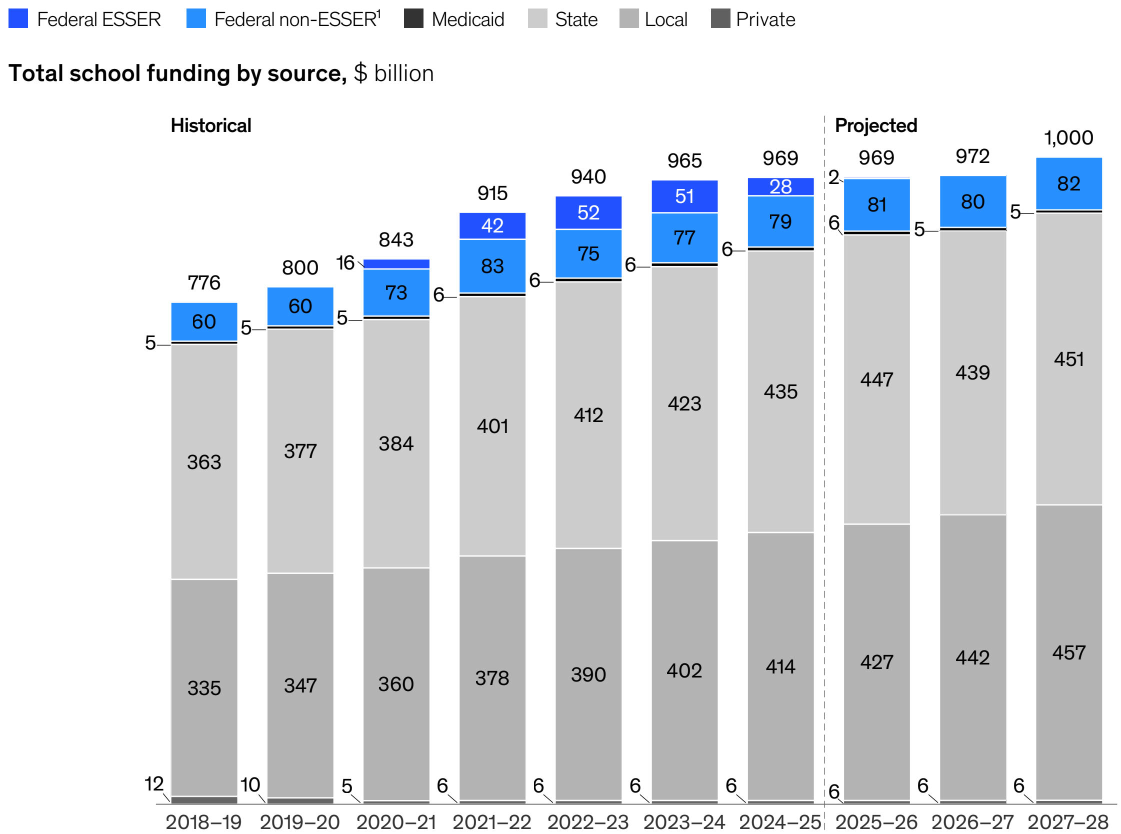
Respondents to the survey represented a cross section of districts by size (31 percent are small, 39 percent medium-size, and 30 percent large); geography (38 percent urban, 45 percent suburban or town, and 15 percent rural); and income level (45 percent higher-income districts—with less than 40 percent of students eligible for free and reduced lunch—and 55 percent lower-income districts, with more than 40 percent of students eligible for free and reduced lunch).

The survey asked questions about expectations for funding at the federal, state, and local levels; district priorities; and anticipated district spending by category.

[1] Wayne Redmond, Emma Dorn, Neil Shelat, and Stephanie McBride, "When the money runs out: K–12 schools brace for stimulus-free budgets," McKinsey, September 18, 2024.
[2] "Inflation expectations tick up; consumers more optimistic about taxes and their financial situations," Federal Reserve Bank of New York, August 7, 2025.

Exhibit 1

K–12 funding is likely to be flat over the next few years.



	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28
Change in funding, %	4.9	3.1	5.4	8.6	2.8	2.6	0.4	0.1	0.2	2.9
Change in total K–12 public school enrollment, %	0	0.2	–2.8	0.1	0.4	–0.2	–0.7	–2.4	–3.6	–1.3

Note: Figures may not sum to totals, because of rounding.
[1]Elementary and Secondary School Emergency Relief funds.
Source: National Center for Education Statistics (NCES) Common Core of Data; NCES Digest of Education Statistics; McKinsey analysis

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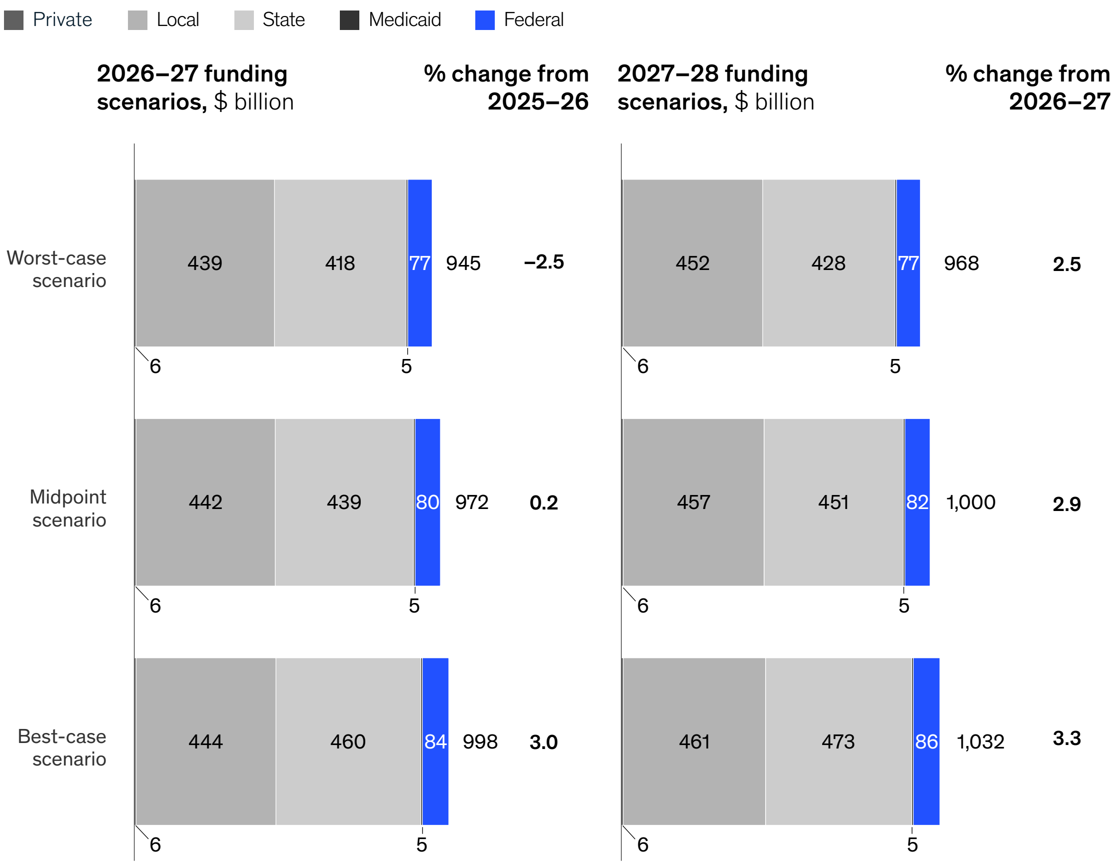
Funding projections always contain an element of uncertainty, and our model is no exception. Some changes are more certain: The Elementary and Secondary School Emergency Relief (ESSER) funding is expiring, and new federal stimulus dollars are unlikely. Other shifts are more contingent on policy choices and the response of the economy. In a worst-case scenario, with a major recession affecting state funding and with additional federal funding cuts, there may be a decline in total per-pupil funding of up to 2.5 percent in the 2026–27 school year. In a best-case scenario, in which policy choices remain favorable to education and the economy avoids a recession, funding in the 2026–27 school year could continue to grow at 3 percent (Exhibit 2). Even in this more positive scenario, however, inflation will eat into these gains, suggesting that real spending power will remain flat in the next couple of school years.

Exhibit 2

A range of funding outcomes is possible, depending on policy choices and economic responses.



Note: Figures may not sum to totals, because of rounding.
Source: National Center for Education Statistics (NCES) Common Core of Data; NCES Digest of Education Statistics; McKinsey analysis

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Regulatory changes and the macroeconomic environment are likely to affect per-pupil funding at the federal, state, and local levels.

Federal level. ESSER stimulus funds need to be fully liquidated by February 2026, resulting in a large decline in overall federal funding relative to 2019 pre-COVID-19 levels. Meanwhile, districts and states are facing uncertainty over the timing,[3] amounts,[4] and structure[5] of current and future federal funding resulting from both legislative and executive branch actions and proposals. For example, the Administration's FY 2026 budget introduces a K–12 Simplified Funding Program—a single block grant that would consolidate 18 formula and competitive federal K–12 grants into one program, representing a $4.5 billion reduction in funding across these programs. At the time of publication, these proposals are still working their way through Senate and House appropriations committees.[6]

On the flip side, more established programs—such as Title I, Individuals with Disabilities Education Act (IDEA) grants, and school meals funding—have

[3] "Department of Education to release $6.2 billion it withheld in public education funding," Economic Policy Institute, July 25, 2025.
[4] Anna Merod, "Education Department cancels ESSER spending extensions," K-12 Dive, April 1, 2025.
[5] Collin Binkley, "K-12 schools must sign certification against DEI to receive federal money, administration says," Associated Press, April 3, 2025.
[6] Mackenzie Wilkes, "House appropriators advance $12B cut to Education Department," Politico, September 2, 2025; Kara Arundel, "Senate committee rejects K-12 grant consolidations in FY 26 bill," K-12 Dive, updated August 1, 2025.

bipartisan support and are unlikely to experience decreased congressional appropriations. A new federal tax credit of up to $1,700 for donations to scholarship-granting organizations increases available funding for school choice.[7] While the scholarships granted by these organizations are typically geared toward private school tuition, there may be potential for these funds to be used for public school–related costs, such as tutoring or other extracurriculars.

Given these trends, we project federal funding to decrease by as much as 22 percent between academic years 2024–25 and 2025–26 (driven by the expiration of ESSER funds), representing a $24 billion loss for school districts. We then project a modest 4 percent funding decline in the 2026–27 school year before returning to modest growth in 2027–28. While this seems like a large decline, federal funding prior to the stimulus accounted for just 7 to 10 percent of total school funding,[8] so the trajectory for state and local funding ends up having a larger impact on K–12 district budgets.

State level. State funding typically accounts for about 45 percent of total district funding and has grown historically at 2 to 4 percent each year. Going forward, however, factors outside of education may influence how and where states choose to spend money. For instance, 26 states have cut personal or corporate income tax rates; estimates from the Center on Budget and Policy Priorities suggest that this could lower available state revenues over the next five years by about $111 billion.[9] States may also be under pressure to backfill Medicaid and Supplemental Nutrition Assistance Program (SNAP) cuts recently passed in the One Big Beautiful Bill Act (OBBBA).[10] Finally, state funding is vulnerable to recessions. *The Wall Street Journal's* recent survey of economists put the probability of a recession over the next 12 months at 33 percent, given additional tariff hikes and inflation pressure.[11] In previous recessions, state spending on education has been cut; between 2008 and 2009, it was cut by 6.4 percent.[12] In that recession, state funding cuts were offset by the American Recovery and Reinvestment Act federal stimulus, but federal programs may be less forthcoming in an upcoming recession given the recent ESSER funding.

Given these risks, we project state funding to decrease by 2 percent in 2026–27 and then resume growing at the rate of inflation for the 2027–28 school year. This represents a midpoint scenario: In the event of a recession, state funding could decrease by up to 6.5 percent in 2026–27. In this recessionary scenario, K–12 districts would lose $29 billion, resulting in a fiscal cliff similar to the one caused by the recent expiration of ESSER funding.

Local level. In contrast, local funding tends to be resilient to recession and economic shocks, even when property values fall. Local governments or school boards can raise the property tax rate to keep total revenue stable—property assessments usually reflect multiyear averages, thus smoothing year-on-year fluctuations, and voters can approve operating overrides during downturns to maintain school spending. However, 46 states and Washington, DC, already limit property tax increases,[13] and there have been recent moves to further limit local government flexibility in raising revenue, including recent bills in Texas,[14] Ohio,[15] and Florida.[16] Meanwhile, local voters have become less likely to approve tax overrides in recent years. In Ohio, for example, only three of the 16 new operating levies on ballots passed in 2024—a 19 percent passage rate compared with a historical average of 37 percent.[17]

[7] Matt Barnum, "New federal tax credit boosts school choice—but blue states face big decision," *Wall Street Journal*, July 21, 2025.
[8] "Digest 2021, Table 325.10," National Center for Education Statistics, April 2022.
[9] Wesley Tharpe, "States' recent tax-cut spree creates big risks for families and communities," Center on Budget and Policy Priorities, November 30, 2023.
[10] "H.R.1 - One Big Beautiful Bill Act," 119th Congress (2025–2026), accessed September 15, 2025.
[11] Paul Kiernan and Anthony DeBarros, "Economists see lower recession risk and stronger job growth: WSJ survey," *Wall Street Journal*, July 12, 2025.
[12] "Table 235.10: Revenues for public elementary and secondary schools, by source of funds: Selected school years, 1919–20 through 2020–21," National Center for Education Statistics, accessed September 8, 2025.
[13] "What are tax and expenditure limits?," Tax Policy Center, accessed September 8, 2025.
[14] Megan Kimble, "Texas House backs tighter cap on property tax increases for cities, counties," *Houston Chronicle*, August 26, 2025.
[15] "House Republicans unveil legislative effort to deliver billions in property tax relief," Ohio House of Representatives, June 4, 2025.
[16] Logan Evan Gans and Andrew M. Piper, "Florida Gov. Ron DeSantis signs 2025 tax bill into law," Holland & Knight, July 14, 2025.
[17] Ned Oliver, "Ohio school levies are falling flat," Axios Columbus, March 27, 2024.

Per-pupil funding is only half of the equation, and districts also face challenges in declining enrollment.

Given these trends, we project local government spending will continue to grow, slightly faster than inflation but slower than historical rates. Most local governments are unlikely to pick up the full slack of declining federal spending and uncertain state finances.

District leaders' perspectives on funding. Stakeholders are slightly more optimistic about go-forward funding, especially regarding the resilience of state funding for education. On average, respondents predicted a decline of about 2.7 percent per annum in federal funding, flat state funding (with a 0.1 percent increase), and a 1.2 percent increase in local funding.

One superintendent noted, "If federal funding gets limited, the states will try to keep their funding at the same levels. But if they have to offset SNAP or Medicaid, they might have to cut elsewhere." Another superintendent suggested, "Our state cannot help us backfill federal fund decreases—it is going to get worse and worse over the next biennium."

Some respondents were more hopeful about local funding, but others expressed concern about recent state legislation and voter fatigue. One respondent noted, "We are seeing property tax cuts at the state level that are going to hit school districts the hardest." Another suggested, "Families aren't voting for local tax overrides to support schools, because their kids aren't in the local public schools anymore."

Of course, per-pupil funding is only half of the equation, and districts also face challenges in declining enrollment.

Enrollment

The National Center for Education Statistics (NCES) projects that 34 states will experience student enrollment declines between 2025 and 2031, with 11 states experiencing declines of 5 percent or more (Exhibit 3). This decline is largely due to demographic changes over the past two decades. Birth rates peaked in 2007 and have been falling ever since, meaning fewer children have been entering schools. There were 700,000 fewer births in 2020 (the birth year of most incoming kindergarteners) than in 2007 (the birth year of graduating seniors).[18] Schools have been dealing with the impact of declining enrollment for over a decade now, with 40 states experiencing enrollment declines between 2019 and 2025.[19] These recent declines put more strain on systems that were already under pressure. Migration also plays a role: Sunbelt states are seeing an inflow of population (and thus children into schools), while California and the Northeast are experiencing outflows.[20]

Recent federal actions may also reduce enrollment in traditional public schools. Recent school choice legislation is expected to expand options for families, potentially shifting enrollment from traditional public schools to charter and private schools.[21] The impact of this legislation will differ by state, depending upon the existing saturation of school choice policies. Twelve states (including Arizona, Florida, and Ohio) have had universal or near-universal school choice programs since 2021,[22] while other states are at an earlier stage of determining school choice parameters and may

[18] "Number of births in the United States 1990-2023," Statista, July 2, 2025.
[19] Tara Moon, "Public school enrollment is declining — but not everywhere, or for all students," The 74, August 11, 2025; Tara Moon, "K-12 public school enrollment declines, explained," FutureEd, August 5, 2025.
[20] Amel Toukabri et al., "New estimates show population recovered for large cities and grew in small places on outskirts of urban areas in 2023," US Census Bureau, May 16, 2024.
[21] Kara Arundel, "3 things to know about school choice in the 'One Big, Beautiful Bill,'" K-12 Dive, July 8, 2025.
[22] Keri D. Ingraham, "Policy focus: School choice in the states," Discovery Institute, January 13, 2025.

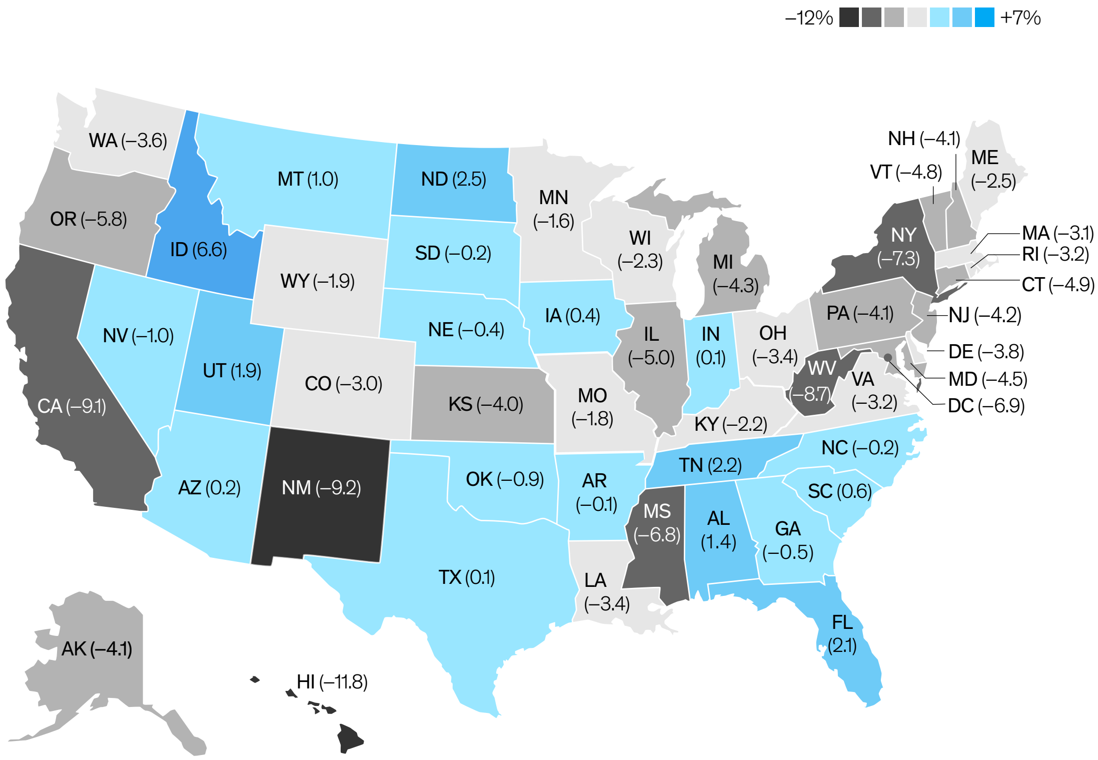
Exhibit 3

Most states will experience declining K–12 enrollment.

Total public school enrollment in fall 2025 and change between 2025 and 2031

(x) Projected change, 2025–31, %

Percent change in enrollment, 2025–31



Key insights

34 states project student enrollment declines between 2025 and 2031

11 states project a 5% or greater decline in student enrollment between 2025 and 2031

8 states project no overall change in student enrollment between 2025 and 2031

8 states project student enrollment increases between 2025 and 2031

Source: National Center for Education Statistics (NCES) Common Core of Data; NCES Digest of Education Statistics

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see more dramatic shifts over the coming years.[23] Changes in immigration policy may also reduce the number of incoming immigrant students and increase absenteeism among students from immigrant families.[24]

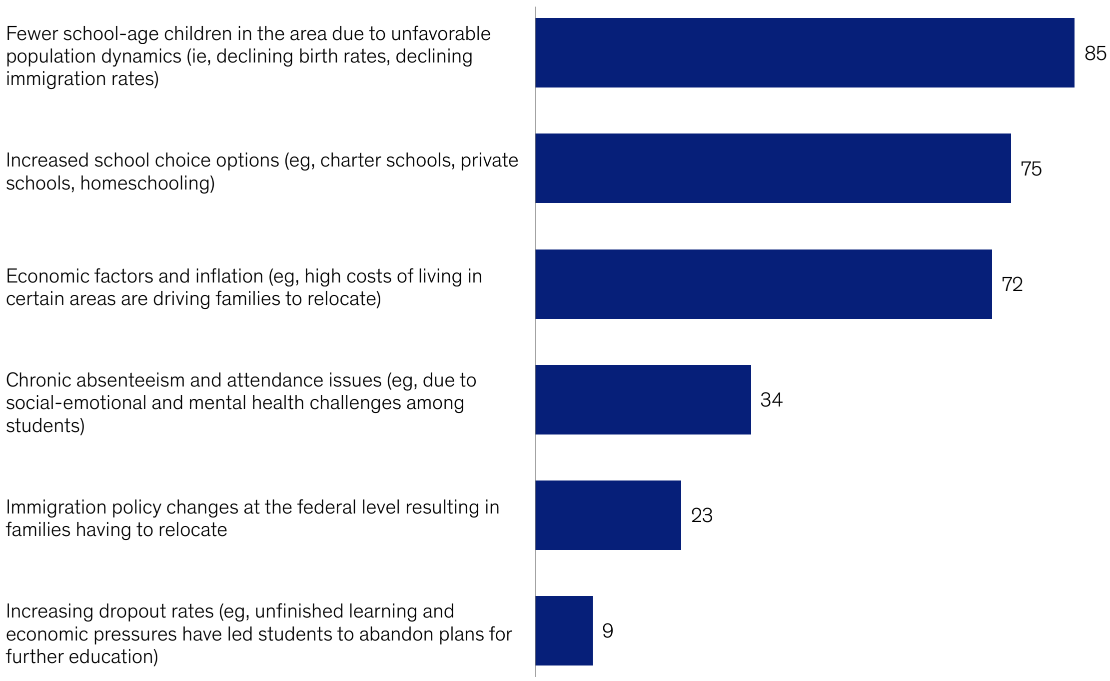
District leaders' perspectives on enrollment. Our survey suggests that some school system leaders are concerned about declining enrollment, with 37 percent expecting enrollment declines. K–12 district leaders pointed to several factors driving enrollment declines, many of which are out of their control—for example, demographic trends and school choice were the top two reasons for declining enrollment (Exhibit 4). One leader noted, "Student population is declining because birth rates are declining." Another stated, "In traditional public schools, we're going to see flat to declining enrollment . . . but high-performing charter schools are going to see increases." Another respondent noted that immigration policy at the federal level was already making a difference: "We are already seeing the

[23] Ben Erwin, "50-state comparison: Private school choice," Education Commission of the States, January 24, 2024.
[24] Tara Moon, "Research notes: Study links immigration raids to rise in student absenteeism," FutureEd, July 23, 2025.

Exhibit 4

District leaders point to demographics, school choice, and economic factors as leading to declining enrollment.

Factors of enrollment decline,[1] % of respondents ranked in top 3 (n = 117)



[1]Question: You noted you expect enrollment in your school district to decline over the next 3 years (from school year 2024–25 to school year 2027–28). What is driving this enrollment decline?
Source: McKinsey 2025 K–12 District Survey (n = 386)

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impact in enrollment and attendance—immigrant families just don't feel comfortable participating in the school system right now."

An even greater number of respondents (51 percent) expect enrollment to increase. These districts may face unexpected budget tightening if NCES demographic projections play out and school choice and immigration policies lead to further declines in traditional public school enrollment.

K–12 spending: Spending plans have not fully adapted to funding realities

District leaders recognize the uncertainty of the funding environment, but they may not be fully prepared to cut spending to match potentially reduced funding. On average, district leaders plan to increase spending across all categories. However, their plans are somewhat moderated by the realities of funding uncertainties. The average rate of projected spending growth in the survey was 1.6 percent, far below historical levels.

Districts are increasing spending across all categories for several reasons. Inflation has raised the price of many school commodities, including transportation, energy, food and nutrition, and labor and materials for school maintenance. Meanwhile, districts continue to grapple with student learning and well-being challenges. The latest National Assessment of Educational Progress (NAEP) found that 49 states had still not returned to prepandemic learning levels.[25] Sixty-three percent of our survey respondents noted that students still haven't recovered learning lost during the COVID-19 pandemic, and a similar proportion said that chronic absenteeism is continuing to rise. One district leader said, "The funding is less, but the needs are higher. That's the mismatch we're trying to solve now."

This situation presents a challenge for districts. While many districts are dipping into reserves, this practice cannot continue forever, and indeed some districts have already used up significant portions of their rainy day funds (Exhibit 5).

Many district leaders are aware of the challenge this dichotomy presents but haven't yet worked out a solution. One district leader said, "That is the problem we are actively solving right now: how to fund increased spending needs in the face of flat or declining funding."

Spending priorities: Districts are prioritizing 'fundamentals'

In an increasingly constrained financial environment, districts will have to be thoughtful about their priorities. Our survey asked district leaders to identify the spending categories they are likely to prioritize over the next three years. Answers were fairly consistent with last year's K–12 survey,[26] with a few notable shifts.

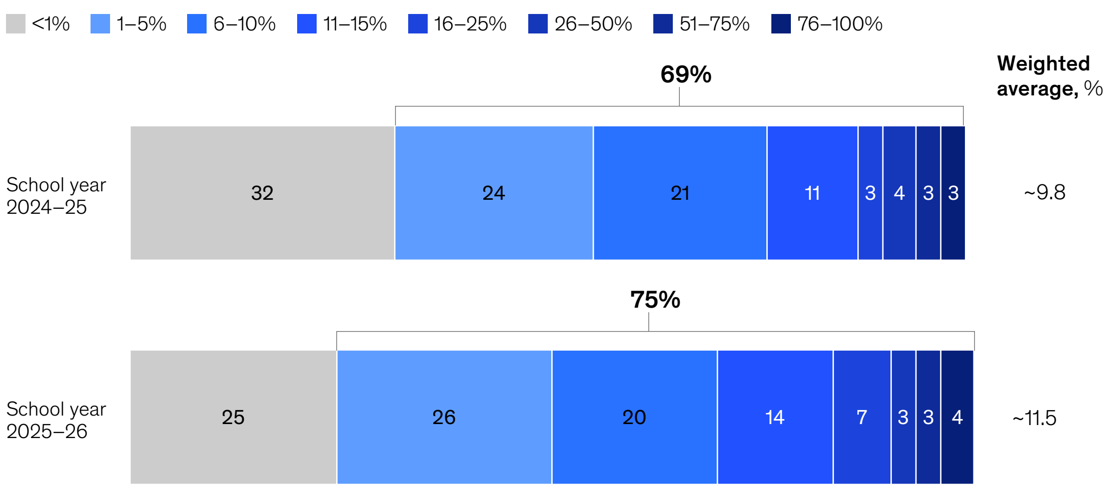
Districts' shifting priorities

In 2025, districts were more likely to prioritize capital projects (such as improving school buildings and cafeterias), student support services (including food and transportation), postsecondary readiness, and on-campus safety and security. They were less likely to prioritize challenges in student behavior, social-emotional learning, and hiring more teachers or instructional staff (Exhibit 6).

Exhibit 5

Many districts are dipping or expecting to dip into rainy day funds to make budgets balance.

Current and expected usage of district rainy day funds,[1] % of respondents (n = 312)



Note: Figures do not sum to 100%, because of rounding.
[1]Question: What portion of your district's "rainy day" or "reserve" funds was utilized during the most recent school year (2024–25), and how much do you expect to use in the upcoming school year (2025–26) of what's remaining?
Source: McKinsey 2025 K–12 District Survey (n = 386)

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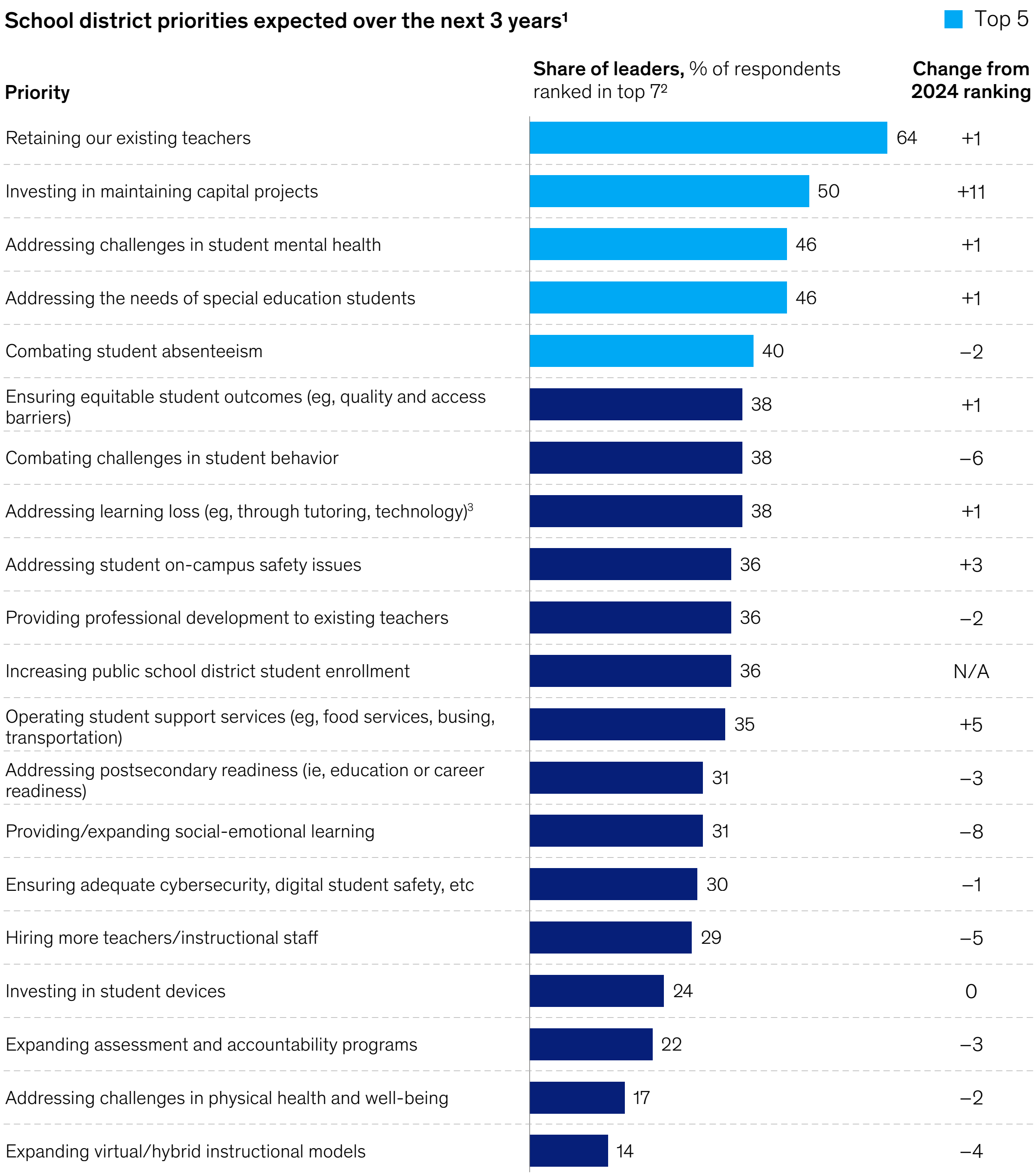
[25] "Explore results for the 2024 NAEP Reading Assessment" and "Explore results for the 2024 NAEP Mathematics Assessment," The Nation's Report Card, accessed September 9, 2025.
[26] Wayne Redmond, Emma Dorn, Neil Shelat, and Stephanie McBride, "When the money runs out: K–12 schools brace for stimulus-free budgets," McKinsey, September 18, 2024.

Exhibit 6

District priorities have shifted over the past year.

School district priorities expected over the next 3 years[1]



[1]Question: Considering your overall budget, what do you anticipate will be key priorities for your district over the next 3 years?
[2]Public and charter school respondents only; n = 325 for 2025 survey and n = 347 for 2024 survey.
[3]Phrased as two separate options in 2024 survey: "Addressing unfinished learning/learning loss through expanding/launching tutoring programs" (ranked 5th) and "addressing unfinished learning/learning loss through technology" (ranked 11th), with an average rank of 8.
Source: McKinsey 2025 K–12 District Survey (n = 386)

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As districts think about their spending plans for the next three years, they are mostly projecting 'more of the same.'

Interviews with superintendents and district leaders help cast light on some of these shifting priorities. Many districts, facing aging facilities, have had bonds passed that allow them to invest in new construction, modernization, and repairs to upgrade facilities for health, safety, and accessibility. In 2024, a record 2,317 bonds went to vote nationwide, with 1,740 passed (a passage rate of about 75 percent), compared to just 1,450 measures passed in 2019.[27] One superintendent remarked, "Aging infrastructure is a real issue—buildings are without AC, and temperatures are increasing." Another factor in increased spending on maintenance is the rise in construction, maintenance, and repair costs.

Conversely, student behavior and social-emotional learning dropped down the priorities list. Some survey respondents noted signs of improvement in student behavior as students have adapted to the school environment, and others pointed to cell phone bans as efforts that have improved behavior. One respondent said, "Student behavior is getting back to normal; the school system has done a good job centering trauma-informed practices. I have also heard very positive feedback on the cell phone bans or limitations. Those are helping take away from the distractions."

Finally, fewer districts are prioritizing hiring new teachers and instructional staff given financial pressures. A majority of districts report they are considering staff reductions, and 69 percent are not hiring new staff as a precaution against future funding shortfalls. Of those not laying off teachers, many are relying on attrition to reduce costs. One respondent noted, "We are just not replacing teachers as they retire or leave and are ending up with larger class sizes as a result." But relying on attrition doesn't help districts retain the most strategic positions or the highest-performing teachers. Some districts continue to hire certain categories of staff in a targeted manner. More than a third of districts expected to expand roles for substitute teachers (48 percent), mental health professionals (41 percent), special education teachers (37 percent), and transportation staff (36 percent).

How spending may change across categories

As districts think about their spending plans for the next three years, they are mostly projecting "more of the same," with a strong correlation between historical and go-forward spending. Taking a deeper look, spending categories can be segmented into four groups: rapid spending and innovation, rising costs driving increased spending, moderate growth to keep up with inflation, and areas vulnerable to stagnating spending (Exhibit 7).

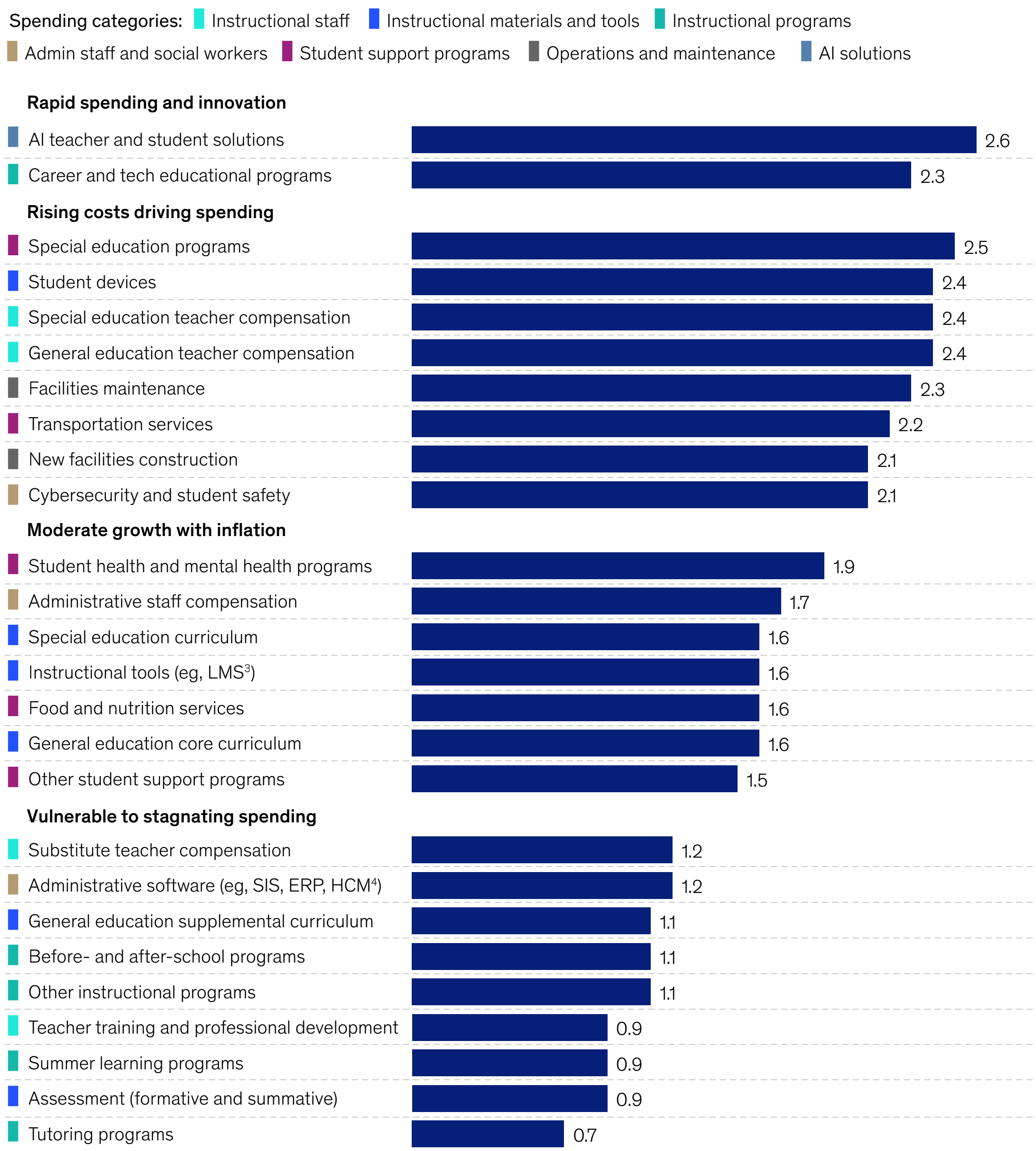
Rapid spending and innovation. The fastest-growing spending category is AI-driven solutions for both teachers and students. Several respondents noted that the spike in spending for AI is starting from a very small base and that they are hoping to save dollars in other areas by expanding AI use. One respondent noted, "AI spending is rising, especially in systems like ERP [enterprise resource planning] and SIS [student information systems], where

[27] "Reports," SchoolBondFinder, accessed September 8, 2025.

Exhibit 7

Forecast growth in school district spending shows moderate growth across most categories.

Expected spending change[1] over the next 3 years,[2] %



[1]Includes only public and charter school respondents.
[2]Question: For each of the following expenditure areas, how much do you expect your spending to change between last school year (2024–25) and the next 3 years?
[3]Learning management system.
[4]Student information system, enterprise resource planning, and human capital management.
Source: McKinsey 2025 K–12 District Survey (n = 386)

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districts hope to do more with fewer administrative staff. It's not just about saving money; it's more about maintaining services as budgets tighten."

Career and technical education (CTE) programs have also seen an uptick in funding. New legislation,[28] an easing of administrative burdens on CTE programs,[29] and recent presidential actions[30] all aim to enhance workforce development through vocational training and skilled trade professions. In this year's K–12 survey, 44 percent of respondents expected this legislation to help districts prioritize CTE programs. One respondent noted, "The college and career readiness programs have been the most impressive thing America has done in the past decade. A lot of kids I've served are earning college credits while they're earning high school credits. Some are graduating with both their high school diploma and an associate's degree. We need to keep investing in these innovative programs and expanding them."

Rising costs driving increased spending. Several areas, including operations and maintenance, are experiencing rising costs, often above inflation, resulting in higher spending levels. As one respondent noted, "Construction costs seem to be going up by 15 to 20 percent at a minimum—that means all maintenance and repair costs are going to increase."

Special education spending is also expected to continue rising. IDEA's maintenance of effort requirements means that districts receiving federal special education funding must maintain (and not reduce) their own local and state funding for special education year over year. One leader noted, "We can't cut back on special education, even if we wanted to. The staff shortage is severe, and the services are legally required. It's one of the few areas where spending can't flex with the budget."

There is also ongoing pressure to raise both special education and general education teacher salaries and benefits in line with inflation. Benefits costs in particular, including pensions and health insurance, have been rising faster than inflation over the past several years,[31] a trend that is projected to continue.[32] One respondent noted, "Salaries and benefits have to go up. But that means we may need to reduce the number of teachers and rely on attrition to bring costs down."

Moreover, with rising concerns about physical safety and increasingly sophisticated cybersecurity attacks, districts expect to spend more to protect their students. One respondent noted, "Security—both physical and digital—remains a priority. Families expect safer schools, so we are investing in gun detection systems and cybersecurity infrastructure just to keep our students safe."

Last, many of the student laptops and tablets that were purchased in the early days of the COVID-19 pandemic are nearing the end of their lives, causing a rise in spending on replacement student devices. One respondent commented, "Districts have no choice but to maintain one-to-one devices—families can't bring their own, and digital access is now part of core instruction. The challenge is how to afford the refresh cycle without new federal dollars."

Moderate growth to keep up with inflation. Several other categories are likely to experience modest growth, especially in the face of ongoing inflation, including substitute teacher and administrative staff compensation, student support programs (such as transportation and food and nutrition), and the highest priority instructional tools and materials.

Within instructional tools and materials, districts are prioritizing their learning management systems (LMS), special education curricula, and core general

[28] "H.R.2353 - Strengthening Career and Technical Education for the 21st Century Act," 115th Congress (2017–2018), accessed September 8, 2025.
[29] "U.S. Department of Education reduces burden on career and technical education programs," US Department of Education, February 10, 2025.
[30] "Career and Technical Education Month, 2025," The White House, February 3, 2025.
[31] *Historical lessons and modern policy for teacher compensation*, Southern Regional Education Board, June 2025.
[32] *National health expenditure projections 2024-2033*, Centers for Medicare & Medicaid Services, accessed September 8, 2025.

education curricula. One leader suggested, "We're doubling down on the LMS and making sure it's fully integrated with curriculum and assessment tools." Another said, "We are focusing on getting the core curriculum right. We just don't have the funds for as many supplemental curricula at this point."

Areas vulnerable to stagnating spending. Spending in this category is still expected to grow but at rates well below inflation, resulting in a decline in spending in real terms. These areas are also likely to be the most vulnerable if further cuts do need to be made. Products and services in this category include administrative software, instructional materials (especially supplemental, intervention, and assessment materials), teacher training and professional development, and most instructional programs (including tutoring, summer school, and after-school programs). One respondent noted, "We really have to focus on first-time instruction now: getting it right the first time with our funding. . . . [We] no longer have the funds to spend on that additional time or on providing extra intervention like tutoring programs."

Outsourcing: Likely to increase as financial pressure tightens

School districts already outsource many products and services, especially in administration and operations (including cybersecurity, administrative software, construction, and operations and maintenance), instructional tools and materials (including curriculum and assessment), substitute teachers and teacher professional development, and some student support programs (including food and nutrition, transportation, and special education).

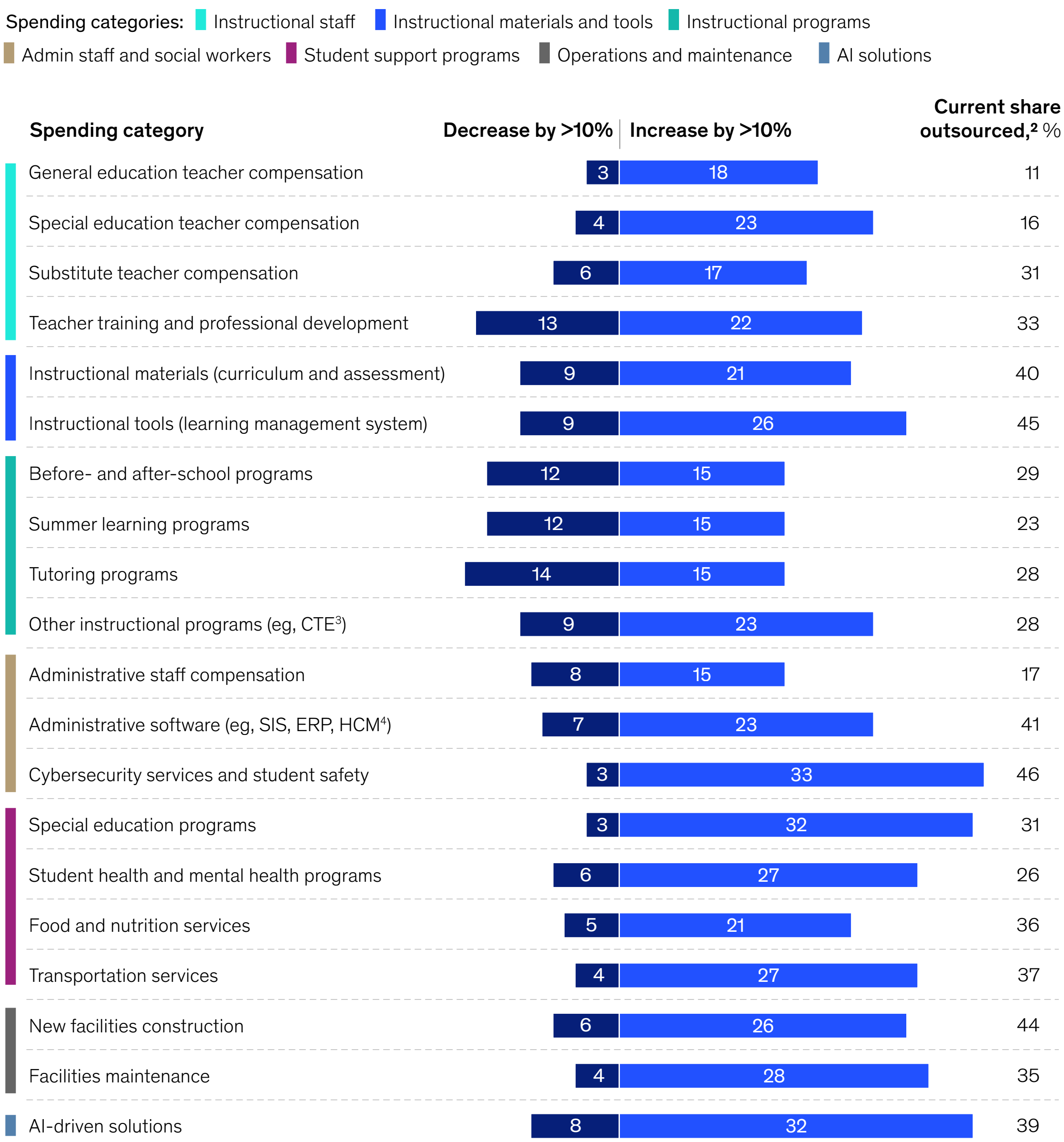
As financial pressures increase, districts are projecting a modest increase in outsourcing across most spending categories, with the largest growth in categories that are already significantly outsourced, including cybersecurity, special education, AI-driven solutions, operations and maintenance, and busing and transportation services (Exhibit 8).

As financial pressures increase, districts are projecting a modest increase in outsourcing across most spending categories.

Exhibit 8

District leaders anticipate increased outsourcing.

Expected change to outsourcing across spending categories, % of respondents[1] (n = 325)



[1]Question: How do you expect the amount of spend that your district outsources to change in the next 3 years for the following areas? Includes only respondents from public and charter schools. Respondents who answered "Maintain (no change +/− 10%)" are not shown.
[2]Question: Roughly how much of your spend do you currently outsource for the following areas in your district?
[3]Career and technical education.
[4]Student information system, enterprise resource planning, and human capital management.
Source: McKinsey 2025 K–12 District Survey (n = 386)

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Survey respondents said their primary reasons for increasing outsourcing were cost savings and a lack of internal capabilities. The latter challenge is becoming increasingly acute. District leaders noted that outsourcing is often used to address staffing shortages in instructional and operational areas, such as speech-language pathology, IT, and HR. Other top reasons include the flexibility outsourcing provides amid funding uncertainty and the higher-quality services that some external vendors can provide. One respondent noted, “Outsourcing gives districts the flexibility to scale services up or down without having to make painful internal cuts. And in areas like mental health or cybersecurity, vendors often bring more specialized expertise.”

While districts expect to move more services to vendors, they are not looking to increase the number of vendors they use. In contrast, 61 percent of districts expect spending to be consolidated with fewer vendors after ESSER concludes, suggesting an opportunity for high-performing vendors to capture share and grow their footprint.

The next few years may be uncomfortable for school districts, and leaders will have to decide where to invest the funds they receive, knowing that federal-level support may be more limited than in recent years. Districts can maximize incoming funding by taking advantage of new programs, such as federal tax credits, state matching opportunities, local bond measures, or philanthropic grants. Districts can also act now to do more with less by strategically focusing spending on high-potential initiatives to improve student outcomes, using the highest-quality external providers that offer solid evidence of their results, and focusing on programs that provide the biggest returns on investment. This will require not only cost cutting but also a shift toward greater efficiency and productivity—investing in tools, people, and strategies that make limited resources go further. The most resilient districts will use this moment not simply to tighten their belts but to realign their budgets with the student outcomes that matter most.

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