

SECTOR IN-DEPTH

5 August 2026



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Public K-12 School Districts – Florida

Declining enrollment and limited revenue capacity strain district finances

Summary

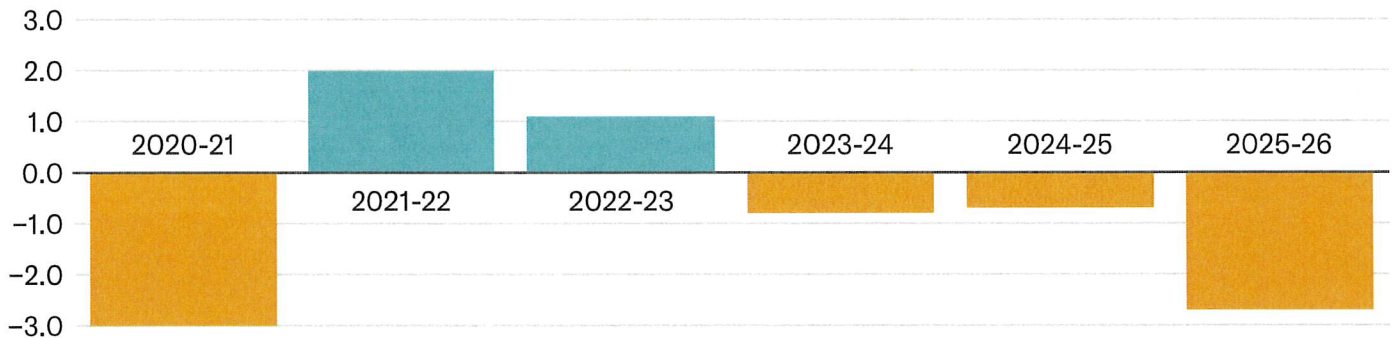
Florida public school districts are operating in a challenged environment. Enrollment declines have accelerated, largely driven by expanded school choice, charter school growth and persistent pandemic-era shifts such as increased home schooling. These trends have weakened state funding at a time of increasing costs. Many districts are drawing down already thin reserves, with more than a third of our rated districts now maintaining available fund balance levels in the single digits.

- » **Enrollment losses are accelerating because of school choice expansion.** While Florida's population continues to grow, traditional public school districts are educating a smaller share of school-age residents. For the 2025-26 school year, median district enrollment declined by 2.7% year over year, the steepest drop since the 3.0% decrease recorded during the 2020-21 school year at the height of the pandemic. Expansion of the Florida Empowerment Scholarship (FES) program is a significant driver of lower enrollment.
- » **Limited revenue-raising flexibility constrains districts' ability to offset enrollment losses.** Florida's funding framework limits districts' ability to benefit from rising property values, leaving revenue closely tied to enrollment trends. As school choice expands and enrollment becomes harder to forecast, districts face greater revenue volatility and exposure to unexpected funding shortfalls.
- » **Cost structures remain rigid, limiting the pace of financial adjustment.** Expenditure reductions often lag behind revenue declines because personnel, transportation and facility costs are difficult to adjust quickly. At the same time, districts continue to face upward cost pressures and the loss of federal ESSER funding, which had supported staffing and other operating needs. This mismatch is increasing the risk of operating deficits and reserve erosion.
- » **Deteriorating reserves are becoming a growing credit challenge for districts.** Although median reserve and liquidity levels remain stable, more districts are drawing on reserves to support operations, indicating weakening underlying financial trends. Management's ability to preserve reserves and maintain financial flexibility will be a key determinant of future credit quality.

Enrollment losses are accelerating due to school choice expansion

Enrollment in Florida's traditional public school districts continues to decline, constraining a key driver of state funding. For the 2025-26 school year, median district enrollment declined by 2.7% year over year, the steepest drop since the 3.0% decrease recorded during the 2020-21 school year, at the height of the pandemic (see Exhibit 1). While charter school growth has contributed to enrollment losses, the expansion of the FES program has become a major driver of recent pressure.

Exhibit 1
Median year-over-year enrollment decline has worsened
Percentage change in enrollment



Source: Florida Department of Education; Moody's Ratings

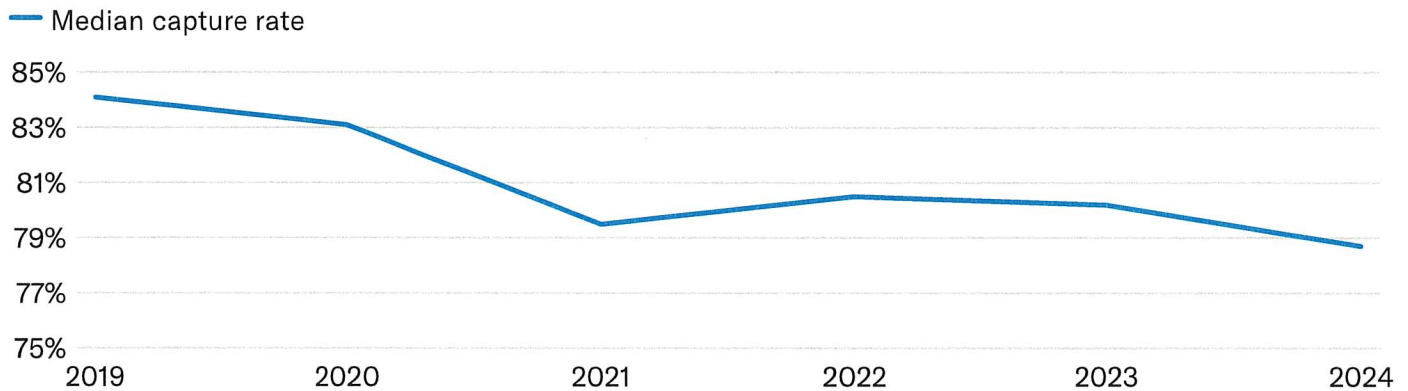
In 2023, the state enacted HB 1, eliminating income eligibility restrictions and enrollment caps for the Family Empowerment Scholarship (FES) program and effectively establishing universal school choice. The policy allows families to use state-funded scholarships for private school tuition, home schooling and other educational options. Scholarship participation has since grown rapidly, reaching roughly 500,000 students statewide in 2025. For fiscal 2025-26, Florida allocated approximately \$3.8 billion to the FES program, equivalent to over 12% of total statewide K-12 funding.

At the same time, traditional public school districts are educating a smaller share of school-age residents. The median district capture rate, which measures the share of a district's school-age population enrolled in district-operated schools, fell to 78.7% in 2024 from 84.0% in 2019 (see Exhibit 2), reflecting growing participation in alternatives such as private schools, home schooling and charter schools. The capture rate has likely declined further in 2025 and 2026. Together, these trends are making enrollment weaker, less predictable and increasingly tied to family choice.

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Exhibit 2

Traditional district schools' enrollment as a share of total student age population has declined



Source: Florida Department of Education; Moody's Ratings

Limited revenue-raising flexibility constrains districts' ability to offset enrollment losses

Florida has experienced strong tax base growth in recent years, yet that growth does not always translate into comparable revenue gains for school districts. Although assessed values have increased substantially, districts cannot fully capture the revenue benefit. The state sets the Required Local Effort (RLE) millage rate for each district and offsets a portion of local property value growth by reducing the RLE millage rate.

Districts have relatively limited ability to raise local operating revenue. In addition to the state-required levy, they may impose a discretionary operating millage and can seek voter approval for an additional operating tax levy. However, these tools provide only limited flexibility. Voter-approved operating millages are not uniformly available across the state, with only about 40% of districts currently benefiting from an approved operating referendum. At the same time, [voter support for tax increases is starting to wane in many parts of the country](#), making such referendums increasingly difficult.

Dedicated capital millage provides strong debt service cushion

Although operating revenue is constrained, capital funding, which is the source of payments for debt service on Certificates of Participation (one of the most commonly used debt instrument issued by Florida school districts), continues to see robust growth. Florida school districts levy 1.5 mills for capital and debt service. This set millage has increased with strong property value growth over the last few years. Additionally, districts are not allowed to issue debt that will require the use of more than 75% of this millage to pay debt service, providing a significant cushion if property values do decline in the future.

This constraint has become more important as enrollment has weakened and become harder to forecast. Under the Florida Education Finance Program, funding is primarily driven by FTE enrollment and is recalculated multiple times during the year. Importantly, the state—not individual districts—produces the official enrollment forecasts used for funding purposes. Several districts reported that the state's 2025-26 projections overstated expected enrollment, resulting in unexpected revenue shortfalls when actual student counts came in below forecast.

School choice expansion has increased the forecasting challenge. Students are moving more frequently among district schools, charter schools, home schooling and scholarship-supported private schools, sometimes within the same year. Because budgets and staffing plans must be established before enrollment stabilizes, districts face growing exposure to midyear funding adjustments and revenue volatility.

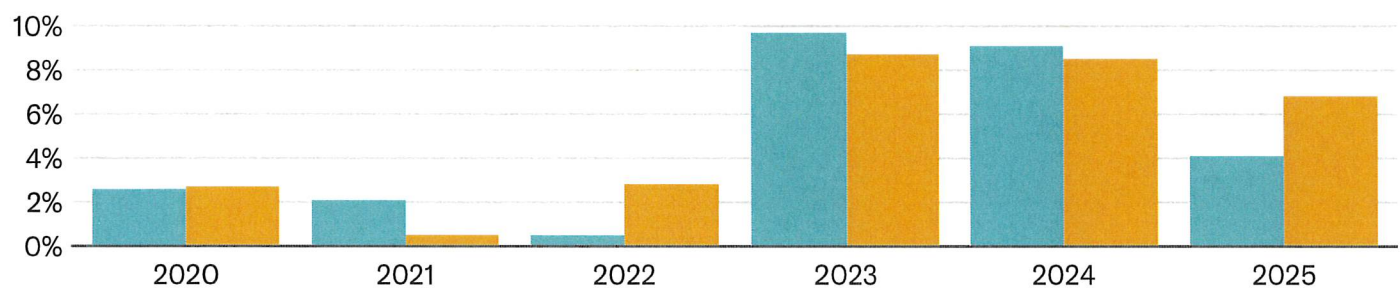
Cost structures remain rigid, limiting the pace of financial adjustment

School districts face challenges in reducing expenditures as enrollment declines. Personnel costs represent the largest component of district budgets, and many operating expenses—including staffing, transportation, facilities, and employee benefits—cannot be adjusted quickly. At the same time, districts continue to face cost pressures from wage growth, inflation and rising benefit costs (see Exhibit 3). Although staffing shortages have improved from peak levels, Florida Education Association reported more than 3,000 instructional vacancies statewide in January 2025, highlighting continuing recruitment and retention challenges in certain positions and geographic areas.

Exhibit 3

In 2025, median expenditure growth outpaced median revenue growth for the first time since 2022

■ Median annual revenue growth ■ Median annual expenditure growth



Source: Districts' audited financial statements and Moody's Ratings

Transportation remains another area of cost pressure. Several Florida districts have reported bus driver shortages in recent years, prompting wage increases, hiring incentives, route modifications and other operational adjustments. These challenges can be particularly acute in geographically large or rapidly growing districts, where transportation networks are difficult to scale up or down in response to changing enrollment patterns.

The expiration of federal ESSER funding has further reduced budgetary flexibility. Florida received approximately \$11 billion across the three rounds of ESSER funding, which districts used to support staffing, student services, academic recovery programs and other operating needs. With those funds largely exhausted, districts must now either absorb previously grant-funded costs into recurring revenue or reduce expenditures accordingly.

This timing mismatch is a growing credit challenge. Florida's enrollment-driven funding model can reduce revenue relatively quickly, while cost structures adjust more slowly. Districts that delay resizing staffing, facilities, transportation systems and programming to match a smaller enrollment base face a higher risk of recurring operating deficits and reserve drawdowns.

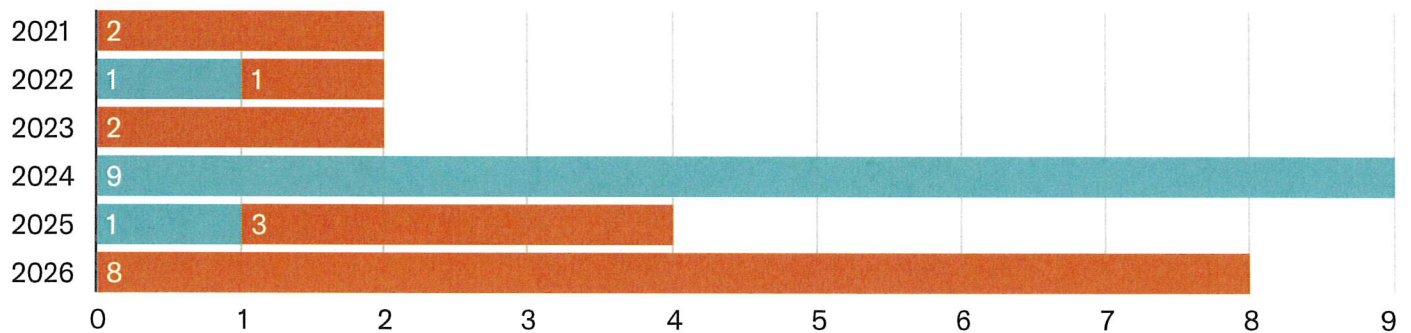
Deteriorating reserves are becoming a growing credit challenge for districts

Florida school districts have historically maintained relatively thin reserves, limiting their capacity to absorb the new operating challenges they now face. While the median available fund balance among rated districts has remained relatively stable between 2019 and 2025, underlying trends have weakened. In fiscal 2024, 37.5% of districts reported a year-over-year decline in available fund balance; by fiscal 2025, that share had risen to nearly 60%. In fiscal 2025, over a third of rated school districts had available reserves of less than 10%. The trend suggests that an increasing number of districts are relying on reserves to offset revenue shortfalls and support ongoing operations. This deterioration of reserves is especially pressuring credit quality this year (see Exhibit 4).

Exhibit 4

Downgrades have outpaced upgrades in 2025 and 2026

■ Upgrades ■ Downgrades



Source: Moody's Ratings

Liquidity remains a relative strength for the sector. Median net cash was 18.9% in 2025, compared with a median available fund balance of 12.0%, providing districts with an additional near-term buffer. Many districts have supplemented that flexibility through transfers from capital funds and by shifting eligible expenditures to capital funding sources. However, these are largely short-term management tools rather than structural solutions.

Stable median reserve levels increasingly mask growing divergence across the sector. Districts experiencing enrollment declines and reserve erosion face mounting financial pressure, while those benefiting from stronger growth trends remain better positioned. As credit outcomes become increasingly district-specific, management's ability to align expenditures with a smaller enrollment base while preserving reserve and liquidity levels will be a key determinant of future credit quality.

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