

Proceed with caution: With enrollment drops, states are looking to hold district budgets harmless



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Because states typically fund districts based on student counts, districts reporting shrinking student enrollment this year are worried about shrinking dollars as well. The seemingly obvious quick fix is for states to hold districts financially harmless for some or all of their enrollment loss—we are in the midst of a pandemic after all. But states have many factors to weigh when deciding whether or how to hold districts financially harmless for student exits—and state-by-state context matters. This brief explores some of these considerations and provides a listing of those states currently adopting hold harmless provisions as well as those that already had them on the books before the pandemic.

In our scan of districts, we find that the typical loss has thus far been in the range of 2-5%, although some districts are experiencing much larger drops. [Juneau, Alaska](#), and [Guilford County, North Carolina](#), have had double-digit losses, according to news reports. And some are actually seeing gains (often charters and virtual schools, but even some typical district schools).

While a 2-5% drop may not sound like a lot, historically, we've found that even a 1% loss of enrollment tends to be financially destabilizing for districts. A [5% loss in enrollment in Mesa, Arizona](#), for example, would have prompted a loss of \$23 million, or about 4% of the district's total revenue, had the state not intervened with its pandemic-driven hold harmless policy. It's the state funds that tend to be in jeopardy, and it's worth noting that districts do vary in how dependent they are on the state (nationally, an average of 47% of district funds come from the state).

It's these revenue implications that make hold harmless policies a hot topic right now. Even before the pandemic, some states had policies that fully buffered the financial hit on districts from enrollment shifts with funding guarantees or that softened the financial impact of enrollment decline from one year to the next. Some states, such as California and Florida, are now modifying existing hold harmless policies to further insulate districts from the financial impact of declining enrollment. Other states, like North Carolina and Texas, have added new, temporary hold harmless measures as a response to the pandemic, with more states likely on the way.

But states have much to consider before going down the hold harmless path. And if states do opt to take that path, their own data and context will be critical to sound policymaking. Here's what states need to weigh when it comes to hold harmless:

- **Can the data forecast how many students are likely to return (like those redshirted for kindergarten) versus those who have enrolled elsewhere?** A [Chalkbeat/Associated Press analysis](#) finds a drop in kindergarten enrollment makes up one-third of the total enrollment loss across 33 states analyzed. Presumably, many families

simply delayed school enrollment due to the pandemic, making for a more temporary drop. But if the drop appears to be longer term—due to students settling into new charter or private schools or due to families relocating as a result of unemployment or for other reasons—states could signal to districts that they need to prepare for funding adjustments based on a permanently smaller student population.

- Some states are doing better than others at tracking enrollment and attendance, and even which students are leaving and where they are going.** As of December, [17 states](#) had not released public data on enrollment shifts seen this fall. Other states, such as [Mississippi](#), [Massachusetts](#), and [Utah](#), have been tracking where students have gone, although not all missing students have been accounted for. Such data could help states tailor a policy response accordingly. For example, if most students are likely to return, a state might decide it makes sense to continue higher funding levels to ensure continuity of services for students. If many students are unlikely to return, states could choose not to implement a hold harmless policy, or they could enact a policy that spreads out the consequences of enrollment loss through multi-year enrollment averages or temporary, partial funding for exited pupils.
- Hold harmless policies cost money, even if they are short term.** North Carolina’s new provision costs \$314 million—that’s \$198 per student for every student in the state that can’t be spent on other things like learning loss. Alternatively, the Washington State Governor’s proposed budget has no hold harmless provision, opting to spend state funds saved due to declining enrollment on a [learning loss plan](#). Some states opt for lower-cost hold harmless policies that only go into effect if enrollment loss reaches a certain magnitude, say 5%.
- If states are funding dwindling districts for students who are no longer there, are states also funding growing districts for their new students?** [California](#) doesn’t fund districts for students above what the district projected for its enrollment. So districts and charter schools with unexpected growth don’t get any new money for those new students. Oregon’s policy effectively counts moving students in both their old and new district. Pre-pandemic, the state’s hold harmless measure cost the state some \$40 million; some estimate that will more than double this year, to around \$100 million. Several states have similar policies that result in “double funding” some students for a year, which always comes with a price tag, but will be particularly expensive this year.
- How does a hold harmless policy change district incentives to keep their students, or to bring them back?** Some Texas lawmakers have expressed worry that extending the state’s fall 2020 hold harmless provision to the spring will [disincentivize districts to find missing students](#). Michigan’s temporary new policy seems an effort to keep those incentives while also stabilizing district finances by tying 25% of funds to current counts, with the rest of funds tied to last year’s enrollment.
- What happens when a hold harmless policy ends?** Districts may be at risk of hitting a funding cliff when the subsidy ends, especially if they were already losing students before the pandemic. Pandemic-era hold harmless provisions so far have been drafted to expire within a year or less. Other hold harmless policies previously in place decrease funds over a few years, funding a smaller portion of what’s often called “phantom students” each year so the district has time to adjust.
- Will a hold harmless policy (or lack thereof) exacerbate or alleviate inequities?** States can do the math to see where any proposed hold harmless money is headed: Which districts benefit, which don’t? Are enrollment drops a

result of students [purged from the roles](#) because they cannot access virtual learning and, if so, how does funding help solve the ongoing need?

Our pre-pandemic research tells us a little bit about how districts [react](#) to losing money due to enrollment drops. Many put off making budget changes, spending down their emergency reserves to keep things as-is. Many resist closing schools and instead make big cuts in one area of the budget—freezing pay, cutting central office positions, trimming contracts, furloughing or laying off teachers—but leave the rest intact. Without real structural changes, districts can enter a financial [downward spiral](#) that further harms students and schools. Only a very few adjust each area of the budget proportionally, shrinking central office departments like HR as well as school budgets to fit the new revenue reality.

States will want to carefully consider the goals and consequences and duration of any hold harmless approach in their own particular context—and pencil out with their own data whether the net effect is likely to help students in the long run. Holding districts harmless for enrollment shifts can be an important band-aid approach to mitigate financial chaos, but also one that carries real costs. It gives districts a temporary pass on wrestling with how to effectively and strategically right-size their budget to match their now-smaller system.

Below we've attempted to summarize what we've uncovered on states' current hold harmless provisions. States are grouped in one of five categories:

- Adopted new provisions
- Considering new provisions
- Existing guarantee of no funding losses
- Existing policies that mitigate funding losses from one year to the next
- Existing caps on funding losses

Please contact [Hannah Jarmolowski](#) at Edunomics Lab with any additions, updates, or corrections.

States that have added new provisions to address pandemic-driven enrollment losses

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| Arizona | State provided a grant to districts for 2020-21 intended to cap revenue loss at 2% of prior year dollars, although the grants were insufficient to meet this target. |
| California | State funds districts for 2020-21 using prior year average attendance as of Feb 29, 2020. Pre-pandemic policy based funding on the higher of the prior or current year average attendance. |
| Florida | State funds districts for 2020-21 based on fall 2020 enrollment forecast. Pre-pandemic policy funded 25% of enrollment reductions for one year. |
| Michigan | State funds districts using 75% prior year attendance count and 25% current year attendance count. The pre-pandemic ratio was 10% prior year attendance count and 90% current year attendance count. The state also holds district funding harmless to pre-1994 formula change levels by allowing those districts to raise additional local dollars. |
| North Carolina | State funds districts for 2020-21 using prior year enrollment. |
| Texas | State funds districts for the first half of 2020-21 based on the trajectory of enrollment in 2017-18 through 2019-20. It is unclear if this hold harmless will continue in the second half of 2020-21. |

States actively considering new provisions

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| Alabama | State is considering a formula that would “factor prior enrollment numbers for districts that lost students” (as of 1/21/21). |
| Colorado | Bill under consideration would send \$60M to districts to make up for lost revenue, \$19M of which is for districts with 2% or greater enrollment loss or a large decrease in “at-risk” students (as of 2/7/21). Declining enrollment districts are currently funded on higher of a two-year, three-year, four-year, or five-year average enrollment. |
| Mississippi | The Senate Education Committee passed a hold harmless bill that would base district funding for 2021-22 on attendance from 2019-20 (as of 1/13/21). |
| Minnesota | A bill in the House would allow districts to be funded for 2021-22 based on the higher of 2020-21 or 2019-20 enrollment (as of 2/19/21). Currently, enrollment reductions are funded at 28% of the general education aid per-pupil amount for one year. |
| New Hampshire | Proposed Senate legislation would fund districts for 2021-22 based on the higher of 2019-20 or 2020-21 enrollment and poverty levels (as of 2/11/21). |
| Virginia | The Governor has promised funds to districts to compensate for enrollment loss. A bill in the Senate contains these hold harmless funds and a House bill contains fewer funds to make up for state aid lost due to enrollment decline (as of 2/12/21). |
| New Mexico | The House Education Committee passed a bill that would guarantee no districts would receive less funding in 2021-22 (as of 2/7/21). New Mexico funds based on prior year enrollment. |

States with existing provisions to guarantee that districts do not lose funding

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| Illinois | State formula guarantees districts at least as much funding as the prior year. |
| Iowa | State allows districts that will see reduced state revenue due to enrollment decline to raise local dollars to get them to 101% of prior year funding. |
| Massachusetts | State formula guarantees districts at least as much funding as the prior year. The state has a separate hold harmless provision that reimburses districts when students leave for charters at 100% tuition the first year, 60% the next year, and 40% the third year. |
| Nebraska | State cannot reduce a district’s financial need calculation even if enrollment declines, although state aid may decrease depending on changes in local resources. |
| New York | State formula guarantees districts at least as much funding as the prior year. |
| North Dakota | State guarantees districts will not lose funds as a result of the 2013 switch to a new funding formula, but this hold harmless will start phasing out in 2021-22. |
| Ohio | State guarantees districts receive at least as much aid as in 2012-13, regardless of enrollment drops. Growing districts have a cap on additional dollars they can receive each year. |
| Pennsylvania | State formula holds district funding harmless to 2014-15 amounts, which are themselves based on prior provision holding districts harmless to 1992 enrollment numbers from 1992 to 2015. |

States with existing policies to mitigate funding losses from one year to the next

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| Alaska | If district enrollment declines by 5% or more, the state funds districts at 75% of the prior “base year,” at 50% of the “base year” the following year, and at 25% of the “base year” the next year. |
| Arkansas | State provides districts with a declining enrollment grant that essentially funds 50% of enrollment reductions for each year. |
| Kansas | State funds districts based on the higher of current or prior year enrollment, which essentially amounts to a one-year hold harmless. |
| Maine | State funds all districts based on a two-year enrollment average. |
| Maryland | State provides declining enrollment districts with a grant that essentially amounts to funding these districts on their three-year enrollment average. In recent years, the state has held districts 100% harmless with additional non-formula funding. |
| Missouri | State funds districts on the higher of current year, first prior year, or second prior year enrollment. Funding for districts with under 350 students is held harmless at pre-2006 levels. |
| Montana | State funds districts based on the higher of current enrollment or the average of the prior three years. |
| Oklahoma | State funds districts based on the highest single-year enrollment count of the past three years. |
| Oregon | State funds districts based on the higher of current or prior year enrollment, which essentially amounts to a one-year hold harmless. |
| South Dakota | State funds districts based on the higher of current enrollment or the average of the prior two years. |
| Utah | State uses the prior year enrollment count to fund districts with declining enrollment, which essentially amounts to a one-year hold harmless. |
| Wisconsin | State provides a declining enrollment grant to districts equal to the current three-year enrollment average minus the prior three-year average multiplied by the base per-pupil funding amount. The state also holds district base revenue harmless to the prior year level in cases of sharp enrollment decline. These provisions essentially provide a one-year hold harmless. |
| Wyoming | State funds districts based on the higher of the prior year enrollment or the prior three-year average. |

States with existing policies that cap funding losses

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| Idaho | State caps yearly student count loss (based on average attendance) at 3% for district funding purposes. |
| Nevada | State holds districts that have 5% or greater student count loss (based on average attendance) harmless for one year. |
| New Jersey | State caps yearly enrollment loss at 5% for district funding purposes, although this provision has not been fully funded in several years. |

Edunomics Lab is a university-based research center dedicated to exploring and modeling complex education fiscal decisions and growing the capacity of education leaders on the topic of education finance. The Edunomics Lab is affiliated with the McCourt School of Public Policy at Georgetown University.