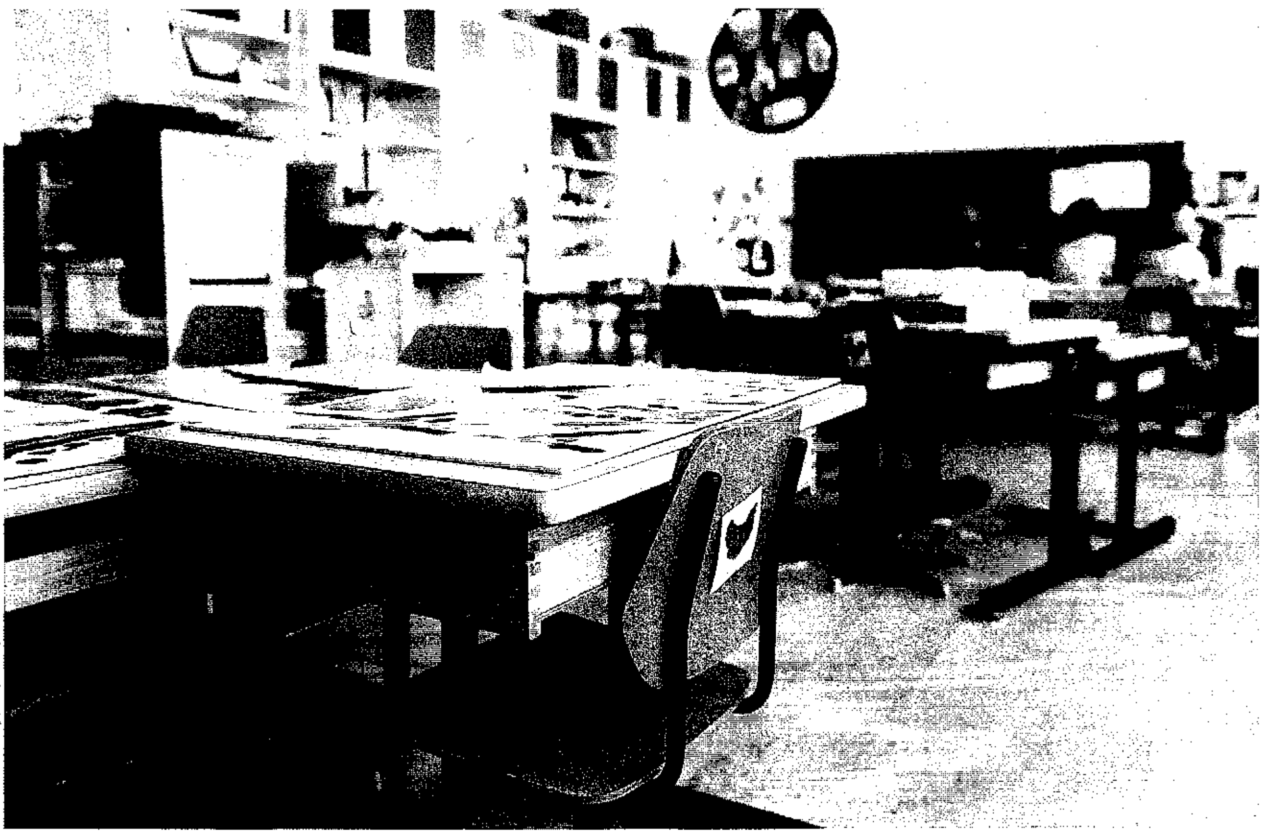
Decrease in Student Enrollment: Forcing Tough Decisions

Districts at risk from near-term financial gaps due to enrollment declines must start making decisions about the future now.

By Katherine Silberstein and Chad Aldeman



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According to the latest federal data, public school enrollment fell 3% last year. Because school district budgets are based on how many students they serve, lower enrollments typically mean less money for schools.

That hasn't happened yet, thanks in part to policies enacted last year to protect schools suffering declines, plus a surge in state and federal education funding. But those are temporary fixes, and district leaders would be smart to find ways to proactively recruit families back to their schools, refresh their multiyear enrollment projections, and rightsize their budgets accordingly.

On the enrollment side, districts hope that students will return to their local public schools once those schools are fully open and back to normal. But it's by no means clear that enrollment will rebound as quickly as it fell, especially if the students who left for charter schools, private schools, or homeschooling discovered what they considered a better alternative and decide they want to stick with it.

Additionally, birth rates were already declining before COVID-19, and recent studies point to a COVID-induced "baby bust." A continued fall in births will mean fewer kindergartners starting school a few short years from now.

For now, most districts are protected from enrollment losses thanks to the infusion of nearly $190 billion in three rounds of federal aid. When we compared the amount of money districts will receive from the two largest relief packages (ESSER II and III) with projected budgetary declines due to enrollment losses, we found that the vast majority of districts are protected, at least for the next two years. In other words, most districts received enough federal aid to offset any budget declines stemming from enrollment losses. Temporarily at least, these districts will be able to continue employing the same staff as before, even as they serve fewer students.

But that's not true everywhere, and some districts will likely feel the pain earlier, either because their enrollments are falling faster or because they didn't qualify for as much federal aid.

To examine how federal aid and enrollment shifts would affect district budgets, we identified over 6,000 districts where enrollment fell from school year 2019-2020 to 2020-2021. Among those districts, we found 1,095 districts with enrollment-related revenue declines that were larger than any gains from the federal relief funds.

The districts most at risk from near-term financial gaps due to enrollment declines tend to be midsize districts between 2,500 and 10,000 students with relatively few students below the federal poverty line. Because federal relief funds were distributed via the Title I formula, the smaller size and lower poverty levels mean the district qualified for fewer (if any) federal relief funds, often less than $500 per pupil. (Note that the average district got more than $2,600 per pupil during the ESSER II and ESSER III rounds of federal relief.)

Those districts most at risk tended overwhelming to be categorized as "large suburbs" and are particularly concentrated in the Northeast and Western states, like Massachusetts, New Jersey, Connecticut, and Washington, but some large suburban districts, such as Fairfax County, Virginia (196,000 students) and Douglas County, Colorado (69,000 students) were also on the list.

State leaders will have to consider whether—and how—to support these districts. For example, states could use so-called "hold harmless" policies to soften the blow of enrollment declines. Those are quite costly and ultimately send dollars to districts for students they did not actually serve. Worse, our analysis suggests that a hold-harmless policy targeted to these districts now would only protect wealthier communities while leaving fewer dollars available for other districts. Instead, states might consider supporting district leaders to improve their financial skills and create more nimble budgets so they can restructure their budgets to meet their smaller enrollments.

Of course, even if districts are temporarily protected from enrollment losses thanks to the federal money, that's merely a short-term patch. Many will feel the financial sting just as federal relief dollars run out. District finance leaders shouldn't get complacent about how to acclimate to the new (possibly permanently) lower enrollments and the resulting lower revenues. In fact, we've created a tool on the Edunomics Lab website letting users explore how district budgets might be affected by varying degrees of hypothetical enrollment declines in order to better understand the potential magnitude of financial strain.

Steps to Success

District leaders might start by taking proactive steps to boost enrollment numbers. For example, district leaders in San Antonio, Texas, asked teachers to go door-to-door to reengage students and families, and the Austin, Texas, district conditioned a 2% raise for staff members on whether or not it meets its enrollment target. In New York City, even the teachers' union is getting involved; the union will pay its members $25 per hour to visit students in their homes to help boost district enrollment numbers.

At a minimum, district leaders would be wise to assess longer-term enrollment trends in their area and communicate what those might mean for their communities. For example, the Bozeman, Montana, school district projected that the federal funds will help it stay solvent for the next two years, but it is already warning about a financial squeeze after the federal money expires. Communicating those issues now will help local citizens weigh in on potential remedies (whether they involve new dollars or strategic downsizing).

Some districts are further along in the process of restructuring their expenses to match their long-term budget outlook. The St. Paul, Minnesota, school district is experiencing a long-term decline in enrollment and birth rates, so it's preparing to make the difficult decision to close underenrolled schools. Short of that, districts could retrain staff to get multiple certifications so they can take on more than one role, or could consider contracting for transportation or other central services.

Districts could also work to tailor their allocations more directly to each school's enrollment by introducing or enhancing weighted student formulas. Doing so ensures that each school's allocations automatically expand and contract with enrollment shifts. It would give school leaders the flexibility to make customized choices about how to contract over time—potentially redesigning roles amidst staff attrition or tailoring reductions to minimize the impact on the students in their buildings.

Looking Ahead

If districts take no action at all, they may find that they've used their federal funding to maintain their prior staffing levels amidst declining enrollments. That will only serve to delay hard decisions.

Worse, if districts use their federal money to award large base salary increases or hire additional new staff, they could be digging a deeper financial hole for when the enrollment reality hits.

Ultimately, the federal funds will run out. Districts will want to start thinking now about whether or to what degree enrollment will rebound, and plan proactively for how to maintain services for their remaining students once those supplemental funds are gone.

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