



How Do School Finance Systems Respond to Enrollment Changes?

#19 IN THE SERIES • MARCH 2025

In most states across the country, public K-12 enrollment is declining. This is a decade-long, national trend that accelerated with the onset of the COVID-19 pandemic and is projected to continue.¹ Although enrollment decline varies substantially among and within states, many states have put temporary or permanent policies in place to address the budgetary implications of enrollment decline. In cases where a school system is growing rapidly, state governments can also allocate additional funding to districts to account for expansion. Different policy choices for states to respond to enrollment change come with trade-offs: The costs of additional support for some districts means that relatively less state aid can be put toward other educational priorities.

How Do States Count Students for School Finance Purposes?

Every state school funding formula considers the number of students a district serves, but states vary in how they count students. Most use an enrollment metric, but a few use an attendance metric.² The student count metric can shape how enrollment shifts might affect state funding, in that attendance rates might fluctuate more quickly than student membership counts. Attendance-based student counts particularly disadvantage districts serving student populations who tend to experience higher rates of absenteeism (e.g., students experiencing homelessness).³

COMMON STATE APPROACHES TO COUNTING STUDENTS IN SCHOOL FUNDING FORMULAS

Student Count Approach	Calculation Method
Attendance: Average Daily Attendance (ADA)	Five states count students for school finance purposes based on the number of students in attendance in a district, recorded and averaged over many days throughout the school year. ⁴
Enrollment: Average Daily Membership (ADM)	Twenty-four states count students for school finance purposes based on the number of students enrolled in a district, recorded and averaged over many days throughout the school year. ⁵
Enrollment: Single or Multiple Count Days	Twenty-one states and the District of Columbia count students for school finance purposes based on the number of students enrolled on a single day or averaged across a few days per year. ⁶

How Do States Approach Funding for Districts Experiencing Enrollment Decline?

At a state budgetary level, when statewide K-12 enrollment declines, state policymakers have choices to make: They may choose to 1) reduce education spending in line with enrollment decline, 2) maintain education spending and allow per-pupil funding to rise, or 3) make strategic choices about how to deploy enrollment-related savings into other educational priorities, including stabilizing the budgets of districts experiencing enrollment decline.

In most states, if a school district's enrollment declines, its state aid amount would also decline, if all other factors were held constant. Some states put policies in place within their school funding formulas to prevent or slow decreases in state aid caused by enrollment decline, often called "hold harmless" measures.⁷ Not all hold harmless measures are alike: Policies that address enrollment decline include prior-year funding guarantees, count year adjustments, stop-loss provisions, and transitional funding. States may also use these policies when they make a change in funding policy that would otherwise mean state aid cuts for some districts.

There are advantages to enrollment decline funding. It can help maintain stability in school funding and give school district leaders additional time to make strategic budget and staffing adjustments. In some cases, it can prevent or help delay school closures, cuts to programs, or staff reductions.

But there are drawbacks, especially for permanent hold harmless policies. By funding districts out of proportion with the number of students they actually serve, the state moves away from alignment with student need and has less money to spend on other educational priorities. Under a hold harmless policy, local district and school leaders may not have enough incentive to adjust their staffing and operations for fiscal sustainability in the long term. And, if enough districts experiencing declining enrollment are funded based on a hold harmless guarantee rather than the state formula, the hold harmless policy may supplant the funding formula as the state's real funding allocation method. This can obscure any clear relationship among state priorities, funding policies, and actual allocation of state dollars.

NOTE

The COVID-19 Pandemic and Hold Harmless Policies

During the first year of the pandemic, public K-12 school enrollment fell by 3%, or about 1.4 million students.⁸ Because of this enrollment decline and challenges to measuring student counts amid distance learning, many states enacted hold harmless policies — particularly count year adjustments and funding guarantees — to maintain school funding. Between 2020 and 2023, at least 42 states had either temporary or permanent funding hold harmless policies in place.⁹

Prior-Year Funding Guarantees

To prevent funding decreases caused by enrollment declines or changes in funding policy, states may guarantee that districts receive at least the same amount of funding they received in some prior school year. States should be cautious because these kinds of guarantees can be difficult to undo, unless expiration dates or firm transition timelines are built into law.

Example: New York’s funding formula has a “save harmless” provision that does not allow a district’s foundation aid amount to fall below the immediate prior year’s amount. In school year 2024-25, this provision benefited more than 330 districts due to declining enrollment.¹⁰

Count Year Adjustments

Adjusting or averaging the count year — the year for which the state considers enrollment for funding purposes — can slow or smooth the fiscal impact of enrollment decline by relying more heavily on earlier years that had higher student counts. This method also avoids a sudden fluctuation in funding if there is an anomalous short-term enrollment or attendance decline for some reason.

Example: Maine uses the average student count from the two previous years.¹¹ Colorado uses the greater of the two-year, three-year, four-year, or five-year average enrollment in districts experiencing enrollment decline.¹²

Stop-Loss Provisions

Stop-loss provisions cap the proportion by which state aid to a district may decline from one year to the next. Like count year adjustments, this blunts the negative budgetary impact of enrollment declines or changes in state policy with a built-in transition timeline.

Example: Tennessee guarantees that school districts lose no more than 5% of their total allocated funding from one school year to the next.¹³

Transitional Funding

State legislatures may also provide transitional funding to school districts, funding them temporarily for portions of the enrollment count that declined.

Example: Minnesota’s declining enrollment revenue stream provides districts with 28% of the per-pupil funding they lost due to enrollment decline in the previous year.¹⁴

How Do States Approach Funding for Districts Experiencing Enrollment Growth?

Most state school funding systems fund districts based on the prior school year's enrollment. Some states have policies in place to help districts maintain programmatic quality if their student population is growing, and to adjust for significant differences between actual and projected enrollment during the school year. Policies that address student enrollment growth include enrollment projection, student growth correction, and set-aside growth funding.

The primary drawbacks of these policies are administrative: The state must hold back some funding in case of unforeseen enrollment growth and may require investment in data systems and processes to accurately track enrollment and adjust payments to districts during the school year with enough time to be useful. And although local leaders may welcome an unexpected funding increase, enrollment growth policies may also reduce predictability and transparency in local budgets.

Enrollment Projection

Some states use districts' prior enrollment growth rates to anticipate future growth.

Example: Alabama's school funding formula contains an "allowance for student growth" that provides additional resources based on a district's enrollment growth rate over the prior two years.¹⁵

Student Count Correction

Student count correction aims to resolve disparities between the prior-year student count used to calculate state funding and a district's actual enrollment during the school year.

Example: Tennessee's "fast growth stipend" is provided to districts when their current year's funding allocation exceeds the previous year's allocation by more than 1.25%.¹⁶

Set-Aside Growth Funding

States may set aside a predetermined amount of funding during spring budgeting, to be allocated during the upcoming school year to districts whose actual growth exceeds projections. Only the fastest-growing districts or those who grow above a certain threshold may be eligible for funding as part of this policy.

How Should States Weigh Trade-Offs?

Many state leaders are interested in ways to support K-12 districts experiencing changes in their enrollment so that these districts can continue to serve students well as the population grows or shrinks. Policies to address enrollment *decline* can help ensure short-term funding stability, but they also come with drawbacks. If state leaders are considering a hold harmless policy due to enrollment decline, predictable, time-limited supports — such as transitional funding or gradual count adjustments — may help school district leaders make budget adjustments, take time for community engagement, and prioritize student needs. However, funding guarantees come at a cost: They can contribute to funding inequities by decoupling resource allocation from the needs of current students, and they can be difficult to undo once in place.¹⁷

Conversely, policies that support enrollment *growth* such as enrollment projection and student count correction may better align funding allocations to in-the-moment student needs. However, such policies could also decrease the predictability and transparency of the funding formula.

Questions for Advocates

- *What are the K-12 enrollment trends in your state, at the state and district level? Which districts are growing or shrinking in enrollment, and by how much?*
- *How does your state measure student count when determining funding allocations?*
- *Does your state have any additional funding formula considerations or exceptions for districts experiencing enrollment decline or enrollment growth?*
- *If your state has hold harmless policies, how many districts benefit from them, and what is the overall fiscal impact?*
- *In what other ways, outside of funding, does your state support districts experiencing significant enrollment change?*

Endnotes

- 1 Krista Kaput, Carrie Hahnel, and Biko McMillan, *How Student Enrollment Declines Are Affecting Education Budgets, Explained in 10 Figures* (Bellwether, 2024), <https://bellwether.org/publications/how-student-enrollment-declines-are-affecting-education-budgets/?activeTab=2>.
- 2 Martin F. Lueken, *How States Protect Funding for K-12 Public Schools: A Summary of State Policies* (EdChoice, 2023), <https://www.edchoice.org/wp-content/uploads/2023/11/Hold-Harmless-POLICY-SCAN-1.pdf>; Eric Syverson and Chris Duncombe, *Student Counts in K-12 Funding Models* (Education Commission of the States, 2022), <https://www.ecs.org/wp-content/uploads/Student-Counts-in-K-12-Funding-Models.pdf>.
- 3 Mark Lieberman, “Why Chronic Absenteeism Is a Budget Problem, Too,” *Education Week*, May 13, 2024, Leadership, Budget & Finance section, <https://www.edweek.org/leadership/why-chronic-absenteeism-is-a-budget-problem-too/2024/05>.
- 4 Lueken, *How States Protect Funding*.
- 5 Ibid.
- 6 Ibid.; Carrie Hahnel and Christina Baumgardner, *Student Count Options for School Funding: Trade-Offs and Policy Alternatives for California* (Policy Analysis for California Education, 2022), https://edpolicyinca.org/sites/default/files/2022-03/r_hahnel-mar2022.pdf; authors’ research on individual state policy changes since 2022.
- 7 Lueken, *How States Protect Funding*.
- 8 Patrick Wall, “COVID Exodus: Where Did 1 Million Public School Students Go? New Data Sheds Some Light,” *Chalkbeat*, February 8, 2023, <https://www.chalkbeat.org/2023/2/9/23591903/school-enrollment-data-decline-covid-attendance/>.
- 9 Lueken, *How States Protect Funding*.
- 10 Rockefeller Institute of Government, *A Review of New York State’s Foundation Aid Education Funding Formula With Recommendations for Improvement* (2024), 214, <https://www.rockinst.org/issue-area/a-review-of-new-york-states-foundation-aid-education-funding-formula-with-recommendations-for-improvement/>.
- 11 Hannah Jarmolowski and Marguerite Roza, *Proceed With Caution: With Enrollment Drops, States Are Looking to Hold District Budgets Harmless* (Edonomics, 2021), <https://edonomicslab.org/wp-content/uploads/2021/02/Proceed-with-caution.pdf>; ME. STAT. tit. 20-A, § 15674, <https://legislature.maine.gov/statutes/20-a/title20-Asec15674.html>.
- 12 Colorado Legislative Council Staff, *School Finance in Colorado*, Research Publication No. 813 (Colorado General Assembly, 2024), https://leg.colorado.gov/sites/default/files/final-2024_booklet.pdf.
- 13 “Tennessee Investment of Student Achievement (TISA),” Reference Number: CTAS-99, e-Li: Electronic Library, University of Tennessee Institute for Public Service, <https://www.ctas.tennessee.edu/eli/tennessee-investment-student-achievement-tisa>.
- 14 “History of Declining Enrollment Adjustments in Minnesota School Finance,” Minnesota Department of Education, July 2022, <https://www.lrd.mn.gov/docs/2023/other/231432.pdf>; Tim Strom, *Minnesota School Finance: A Guide for Legislators* (MN House Research, 2024), <https://www.house.mn.gov/hrd/pubs/mnschfin.pdf>.
- 15 Alabama State Department of Education, *A Guide to State Allocation Calculations 2023-2024* (2023), https://www.alabamaachieves.org/wp-content/uploads/2023/10/LEAFIS_2023103_State-Guide-to-Allocations-2023-24_V1.0.pdf.
- 16 “TISA Quick Guide: Fast-Growth Funds,” Tennessee Department of Education, <https://www.tn.gov/content/dam/tn/education/tisa-resources/Fast-Growth%20Funding%20-%20TISA%20Quick%20Guide.pdf>.
- 17 Alex Spurrier, Bonnie O’Keefe, and Biko McMillan, *Leveling the Landscape: An Analysis of K-12 Funding Inequities Within Metro Areas* (Bellwether, 2024), <https://bellwether.org/publications/leveling-the-landscape/>.

About the Authors



JOHN BELLAIRE

John Bellaire is a 2024 summer intern at Bellwether in the Policy and Evaluation practice area.



BONNIE O'KEEFE

Bonnie O'Keefe is a senior associate partner at Bellwether in the Policy and Evaluation practice area. She can be reached at bonnie.okeefe@bellwether.org.



INDIRA DAMMU

Indira Dammu is an associate partner at Bellwether in the Policy and Evaluation practice area. She can be reached at indira.dammu@bellwether.org.

ACKNOWLEDGMENTS

Thank you to the Gates Foundation and the Walton Family Foundation for their financial support of this project.

Thank you to our colleagues Jennifer O'Neal Schiess, Carrie Hahnel, Biko McMillan, Linea Harding, and Krista Kaput for their input and Ashlie Scott for her support. Thank you also to Amy Ribock, Kate Neifeld, Andy Jacob, Zoe Cuddy, Julie Nguyen, Mandy Berman, and Amber Walker for shepherding and disseminating this work, and to LJ Carter Creative and Super Copy Editors.

Any errors in fact or analysis are the responsibility of the authors alone.

ABOUT THE SERIES

Splitting the Bill is a crash course in the essentials of school finance equity for advocates and others interested in reforming state education finance systems. Learn more and read the other briefs in this series [here](#).

DISCLOSURE

Bellwether works with organizations and leaders who share our viewpoint-diverse commitment to improving education and advancing equity for all young people — regardless of identity, circumstance, or background. As part of our commitment to transparency, a list of Bellwether clients and funders since our founding in 2010 is publicly available on our website. An organization's name appearing on our list of clients and funders does not imply any endorsement of or by Bellwether.

Separate from the creation of this issue brief, Bellwether provided advice and assistance to the Tennessee Department of Education (TDOE) related to the performance-based public hearing process allowed under the Tennessee Investment in Student Achievement (TISA) Act. Bellwether also served as a technical adviser to the TDOE in 2022, providing data modeling support to the department during legislative deliberations that led to TISA.

About Bellwether

Bellwether is a national nonprofit that exists to transform education to ensure systemically marginalized young people achieve outcomes that lead to fulfilling lives and flourishing communities. Founded in 2010, we work hand in hand with education leaders and organizations to accelerate their impact, inform and influence policy and program design, and share what we learn along the way. For more, visit bellwether.org.

© 2025 Bellwether

- © This report carries a Creative Commons license, which permits noncommercial reuse of content when proper attribution is provided. This means you are free to copy, display, and distribute this work, or include content from this report in derivative works, under the following conditions:
- ① **Attribution.** You must clearly attribute the work to Bellwether and provide a link back to the publication at www.bellwether.org.
- ⑧ **Noncommercial.** You may not use this work for commercial purposes without explicit prior permission from Bellwether.
- ③ **Share Alike.** If you alter, transform, or build upon this work, you may distribute the resulting work only under a license identical to this one.

For the full legal code of this Creative Commons license, please visit www.creativecommons.org. If you have any questions about citing or reusing Bellwether content, please contact us.