

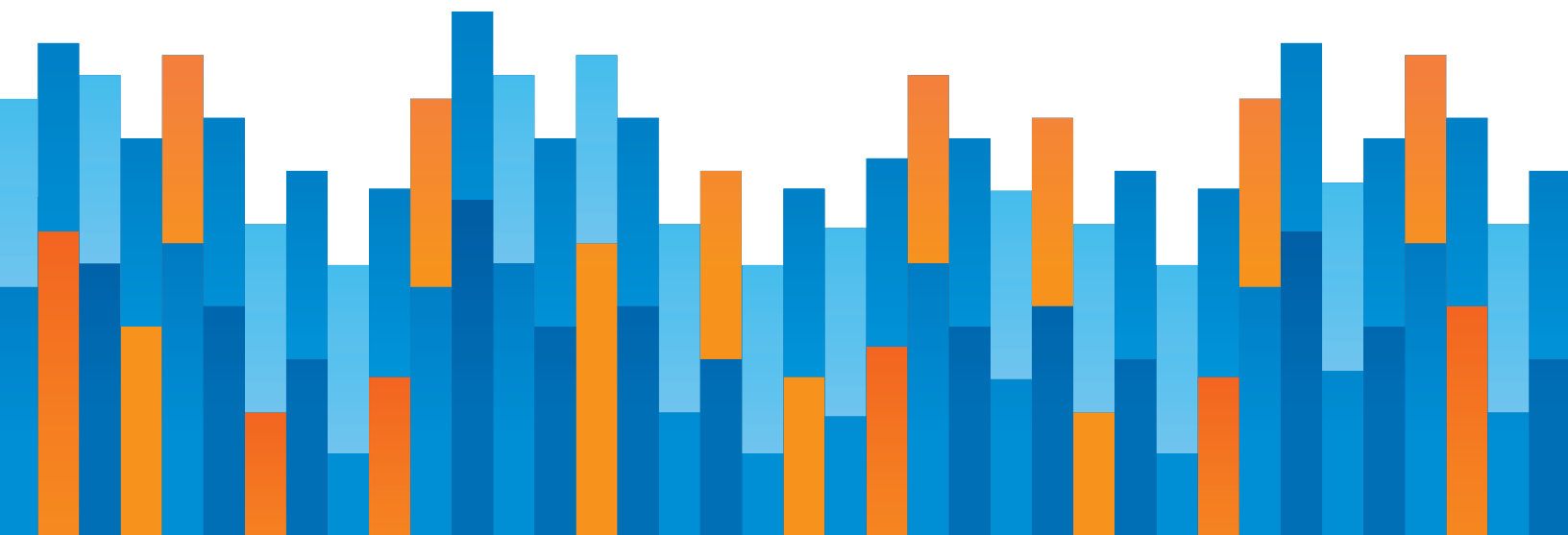


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BILLIONS: THE COST OF STATE HOLD HARMLESS POLICIES IN K-12 EDUCATION

by Aaron Garth Smith and Christian Barnard

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EXECUTIVE SUMMARY

Public school enrollment is falling fast, and hold harmless policies that provide funding protections for school districts are becoming increasingly costly. These policies can broadly be classified in two ways, with each type serving different aims. Declining enrollment protections allow school districts to use previous, rather than current, student counts for funding purposes. This promotes stability by giving school districts time to adjust to revenue fluctuations caused by enrollment losses. Similarly, funding guarantees promise school districts a minimum level of state aid, and are often used as a political bargaining chip to help legislators pass school finance reforms. Across states, many hold harmless policies were in place even before the COVID-19 pandemic.

But such hold harmless policies fund “ghost students” or set arbitrary funding floors, which have opportunity costs. For instance, these dollars could be otherwise devoted to raising per-student funding for all school districts or to directing greater funds to higher-need students. Hold harmless policies also reduce the incentive for school districts to right-size operations or innovate in response to budget constraints. Finally, they run the risk of becoming entrenched in school finance systems over time, outliving their intended purpose.

In many cases, it’s unclear exactly how much these provisions cost and which districts benefit most from them. As a result, policymakers can’t easily assess their effectiveness or whether these resources could be put to better use for students. With widespread public school enrollment losses in the wake of the COVID-19 pandemic, the financial costs of

some hold harmless policies have increased exponentially. This trend is likely to continue, with the National Center for Education Statistics projecting that nationwide public school enrollment will fall by 5.1% between 2021 and 2031 as many states continue to lose students. This, combined with the rise of school choice policies such as Education Savings Accounts and public school open enrollment, also raises the stakes for policies that effectively fund students twice.

This study shines light on the issue by assessing declining enrollment provisions across three states: California, Missouri, and Oklahoma. It also analyzes separate funding protections in California and Missouri. Because it is sometimes claimed hold harmless policies benefit low-income students, particular attention is given to trends related to school district poverty levels.

California

- In 2022-23, 789 of 931 school districts—or 84.7%—received declining enrollment funding. As a result, there were an estimated 400,974 ghost students statewide, costing the state \$4.06 billion or 6.2% of total formula aid. Charter schools were not eligible for this funding.
- Los Angeles Unified School District had an estimated 50,417 ghost students, costing the state \$507.74 million or \$1,459 per student.
- On average, the state’s highest-poverty school districts weren’t the largest beneficiaries of declining enrollment funding per student.
- In 2022-23, 148 school districts received hold harmless funding via California’s Minimum State Aid (MSA) policy, which guarantees funding based on 2012-13 levels. The majority of these school districts (111) were property-wealthy districts that didn’t otherwise qualify for state formula aid. MSA funding for school districts totaled \$186.1 million.

Missouri

- In 2021-22, 256 of 518 school districts—or 49.4%—received declining enrollment funding. As a result, there were an estimated 44,997 ghost students statewide, costing the state \$197.04 million or 4.7% of total formula aid. Charter schools were not eligible for this funding.
- On average, the state’s highest-poverty school districts weren’t the largest beneficiaries of declining enrollment funding per student.

- In 2021-22, 200 school districts received hold harmless funding via Missouri’s large school hold harmless (LSHH) and small schools hold harmless (SSHH) provisions, which guarantee funding based on 2005-06 and 2004-05 or 2005-06 levels, respectively. Combined, these policies cost the state about \$134 million and sent state aid to 17 property-wealthy school districts that otherwise wouldn’t qualify for state formula aid.
- Clayton and Brentwood—two of the highest-funded school districts in the state—received \$546 per student and \$580 per student in LSHH funding, respectively.

Oklahoma

- In 2022-23, 155 of 541 school districts in Oklahoma—or 28.7%—received declining enrollment funding. As a result, there were an estimated 3,777 ghost students statewide, costing the state \$14.03 million or 0.6% of total formula aid.
- On average, the state’s highest-poverty school districts weren’t the largest beneficiaries of declining enrollment funding per student.
- The per-student amounts allocated through this provision were substantially lower than in California and Missouri.

Putting it all together, this study has three key takeaways for state policymakers.

1. Declining enrollment provisions can have substantial opportunity costs, but context matters.

Hold harmless policies divert dollars away from funding school districts based on current enrollment counts and students’ needs. California and Missouri illustrate how declining enrollment provisions can consume a substantial portion of state education budgets during periods of widespread enrollment losses. In comparison, Oklahoma allocated only a modest portion of its formula aid through its declining enrollment policy.

As declining enrollment provisions become costlier, policymakers can look to states such as Texas, Arizona, and Indiana, which all fund school districts solely based on current-year enrollment counts. Alternatively, lawmakers can make their declining enrollment provisions less generous, as Oklahoma did in 2021 by going from a two-year look back to a one-year look back.

2. Funding guarantees can allocate dollars arbitrarily and undermine state funding formulas.

Hold harmless policies can long outlive their intended purpose and arbitrarily benefit subsets of school districts at the expense of overall funding fairness. This is especially true of funding protections, which are often aimed at ensuring state aid for wealthy school districts. For example, California's Minimum State Aid (MSA) guarantee was designed to shield some districts from funding losses related to a funding formula overhaul in 2012-2013. This policy directed \$126.6 million in state funds to 111 property-wealthy school districts that wouldn't otherwise receive any state funding.

Although funding protections are entrenched in statute, lawmakers sign off on them each year they persist. Eliminating outdated hold harmless policies can be politically challenging, but is a worthwhile policy goal.

3. The relationship between declining enrollment funding and school district poverty rates is tenuous.

Across the three states examined, there isn't a clear relationship between declining enrollment funding and school district poverty levels. For instance, California's highest-poverty school districts (Quartile 4) received less declining enrollment funding on average than its lower-poverty school districts (Quartiles 2 and 3).

If targeting additional dollars to low-income students is a policy goal, there are more effective ways to accomplish this. For instance, all states examined in this study have funding weights in their formulas that provide additional resources for economically disadvantaged students. This is a more precise and transparent approach to divvying up education dollars.

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PART 1

INTRODUCTION

School finance systems are notoriously opaque. Across states, few stakeholders know how K-12 education dollars are delivered to public school districts. Some of this complexity arises out of necessity—for instance, kids have varying needs and local tax bases aren't uniform—while some of it reflects the political nature of education funding. School finance formulas vary considerably, but most states have hold harmless policies that contribute to this opacity in small or big ways.¹ In many cases, it's unclear exactly how much these provisions cost and which school districts benefit most from them. As a result, policymakers can't easily assess their effectiveness or whether these resources could be put to better use for students.

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While K-12 funding formulas generally tie education dollars to current enrollment counts and student needs, hold harmless provisions untether this relationship.

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¹ Marty F. Lueken, “How States Protect Funding for K-12 Public Schools,” EdChoice, 2023. www.edchoice.org/wp-content/uploads/2023/11/Hold-Harmless-POLICY-SCAN-1.pdf (8 Dec 2023).

Hold harmless policies can take many forms, but the concept is straightforward: state funding is allocated to school districts based on historical factors that mitigate funding losses, such as past enrollment levels or funding amounts. While K-12 funding formulas generally tie education dollars to current enrollment counts and student needs, hold harmless provisions untether this relationship. These policies can broadly be classified in two ways, with each type serving different aims as summarized in Table 1.²

TABLE 1: HOLD HARMLESS TYPES AND BENEFITS

Hold Harmless Type	Description	Benefits
Declining Enrollment Provision	Allow school districts with declining enrollment to use previous, rather than current, student counts for funding purposes.	Promote stability by giving school districts time to adjust to revenue fluctuations caused by enrollment loss. Recognize that school districts have fixed and step-variable costs that can't easily be shed in the short run.
Funding Guarantee	Guarantee school districts a minimum level of state aid, which is often based on a prior year's revenue level.	Often used to ensure school districts don't lose funding due to changes in a state's school finance formula. A political bargaining chip to help lawmakers pass school finance reform.

Source: Adapted from James V. Shuls and Martin F. Lueken, "How States Protect Funding for K-12 Public Schools."

Hold harmless provisions are often used to stabilize school district budgets, but they also have opportunity costs. For declining enrollment provisions, funding students that districts no longer serve means that fewer dollars are available for other purposes, such as targeting more aid to students with disabilities or increasing a state's base-student allotment that benefits all school districts.³ Similarly, funding guarantees reduce the amount of revenue that could otherwise be distributed through a state's formula. This might result in high-wealth school districts receiving dollars for which they have no demonstrable need, increasing costs to taxpayers and working in direct conflict with the core purpose of most school finance systems (i.e. equalizing variations in local wealth).⁴

² See James V. Shuls and Martin F. Lueken, "How States Protect Funding for K-12 Public Schools," EdChoice, 2023. www.edchoice.org/wp-content/uploads/2023/11/Hold-Harmless-PRIMER-1.pdf (11 Dec 2023) for a full discussion of the benefits and drawbacks of hold harmless policies. Note: The authors of this paper use the term "hold harmless" exclusively as it relates to funding guarantees. In contrast, this study uses hold harmless to refer to both declining enrollment provisions and funding guarantees.

³ Ibid.

⁴ Ibid.

Hold harmless policies also reduce the incentive for school districts to right-size their operations or innovate in response to budget constraints, signaling to school districts they should “continue delivering education the way they have for the last century,” as Marguerite Roza and Jon Fullerton put it.⁵ For most organizations—whether for-profit or non-profit—revenue declines tell leaders that they must adapt either by attracting new customers, becoming more efficient, or both. Essentially, they must get better or risk going out of business. But, when school districts are held harmless, there’s no financial incentive to make these improvements and the status quo prevails.



Policies that are adopted to make compromises can easily balloon or compound on one another if they are left in place too long, making them politically difficult to fix if districts stand to lose money.



Additionally, hold harmless provisions often run the risk of becoming irrevocably entrenched in school finance systems over time.⁶ Policies that are adopted to make compromises can easily balloon or compound on one another if they are left in place too long, making them politically difficult to fix if districts stand to lose money.

Finally, with widespread public school enrollment losses in the wake of the COVID-19 pandemic, the financial costs of some hold harmless policies to taxpayers have increased exponentially. This trend is likely to continue, with the National Center for Education Statistics projecting that nationwide public school enrollment will fall by 5.1% between 2021 and 2031 as many states continue to lose students.⁷ This, combined with the rise of school choice policies such as Education Savings Accounts and public school open enrollment, also raises the stakes for policies that in effect fund students twice.

⁵ Marguerite Roza and Jon Fullerton, “Funding Phantom Students,” *Education Next* Vol. 13, No. 3 (2013). www.educationnext.org/funding-phantom-students/ (11 Dec. 2023).

⁶ James V. Shuls and Martin F. Lueken, “How States Protect Funding for K-12 Public Schools.”

⁷ “Digest of Education Statistics: Table 203.20,” National Center for Education Statistics, [nces.ed.gov](https://nces.ed.gov/programs/digest/d22/tables/dt22_203.20.asp), October 2022. https://nces.ed.gov/programs/digest/d22/tables/dt22_203.20.asp (8 Dec 2023).

1.1

ABOUT THIS STUDY

Ultimately, policymakers must weigh the benefits and drawbacks of hold harmless provisions and decide whether they're the most effective use of scarce resources. To do this, they must have a clear accounting of their costs and benefits. In some cases, this is straightforward since states report hold harmless funding as a distinct category and publish the amounts received by school districts. However, transparency is often lacking, leaving lawmakers with no way to assess the tradeoffs in front of them. In the post-COVID-19 era, the stakes are higher than ever as public school enrollment plummets and states consider extending hold harmless policies that were adopted or modified during the pandemic.

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Ghost student counts are the difference between actual current-year enrollment counts and the counts used for funding purposes.

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This study shines light on the issue by assessing declining enrollment provisions across three states: California, Missouri, and Oklahoma. These states were selected based on their different approaches to declining enrollment funding and the availability of publicly reported data. For each state, cost estimates and ghost student counts were calculated, and data showing how these dollars are distributed across school districts are provided. Ghost student counts are the difference between actual current-year enrollment counts and the counts used for funding purposes.⁸ Because it is sometimes claimed that such policies primarily benefit low-income students, particular attention is given to trends related to school district poverty levels. Also, we provide cost estimates and additional data for funding guarantee policies employed in both California and Missouri. Using the data from the six hold harmless policies examined, the study concludes with an analysis section that puts these provisions in context, including key takeaways for policymakers across states. A methodology section is included at the end of the study for additional details on data sources and how the estimates were calculated for each state.

⁸ Note that states vary in how students are counted for funding purposes. For instance, California's and Missouri's declining enrollment provisions are based on average daily attendance counts, while Oklahoma's policy is based on weighted average daily membership. As a result, cross-state comparisons of ghost-student counts might be directionally accurate, but imprecise. This paper counts ghost students based on each state's policy.

PART 2

CALIFORNIA'S DECLINING ENROLLMENT FUNDING AND MINIMUM STATE AID GUARANTEE

California's declining enrollment policy funds school districts based on the greater of the current, the prior year's, or the average of the three most recent prior years' average daily attendance (ADA).⁹ ADA measures the average number of students in attendance over a specified time period, which is similar but not identical to student enrollment. California also provides a Minimum State Aid (MSA) Guarantee, which ensures a funding floor based on what districts received in 2012-13, the year before the state adopted the Local Control Funding Formula.¹⁰ Notably, state aid for charter schools is based entirely on current-year ADA counts, although some receive MSA funding. These hold harmless policies are analyzed separately below.

⁹ California Education Code § 42238.05

¹⁰ "Local Control Funding Formula Overview," California Department of Education, *cde.ca.gov*, 22 May 2023. <https://www.cde.ca.gov/fg/aa/lc/lcffoverview.asp> (8 Dec 2023). Note that in Additional State Aid to Meet the Minimum Guarantee the MSA calculations are adjusted for changes in ADA and local revenue.

2.1

CALIFORNIA'S DECLINING ENROLLMENT PROVISION

In 2022-23, 789 of 931 school districts—or 84.7%—received hold harmless funding due to the state's declining enrollment provision. Of those that didn't receive this funding, most were off-formula school districts—higher-wealth districts that raise all of their formula funding locally and didn't qualify for state equalization aid.¹¹ There were an estimated 400,974 ghost students statewide, at a total cost of \$4.06 billion, which was about 6.2% of formula aid that year.¹² Grades TK-3 had the greatest number of ghost students (142,477), while the other grade spans totaled 92,199 (4-6), 86,899 (7-8), and 99,218 (9-12).

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In 2022-23, 789 of 931 school districts—or 84.7%—received hold harmless funding due to the state's declining enrollment provision.

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School districts varied substantially in the amount of declining enrollment funding they received. Table 2 displays the top 10 beneficiaries of California's declining enrollment policy in total funding terms. Los Angeles Unified tops the list by a wide margin, receiving more than half a billion dollars—about 8.3% of its state formula aid—at a cost of \$1,459 per ADA. Notably, these districts received between 4.4% and 11.9% of their formula aid from the declining enrollment hold harmless, and vary substantially in their poverty rates. For instance, Capistrano Unified received more in hold harmless funding than Fresno Unified, despite serving far fewer students and having a substantially smaller share of low-income students.

¹¹ In California, off-formula school districts are referred to as Basic Aid districts.

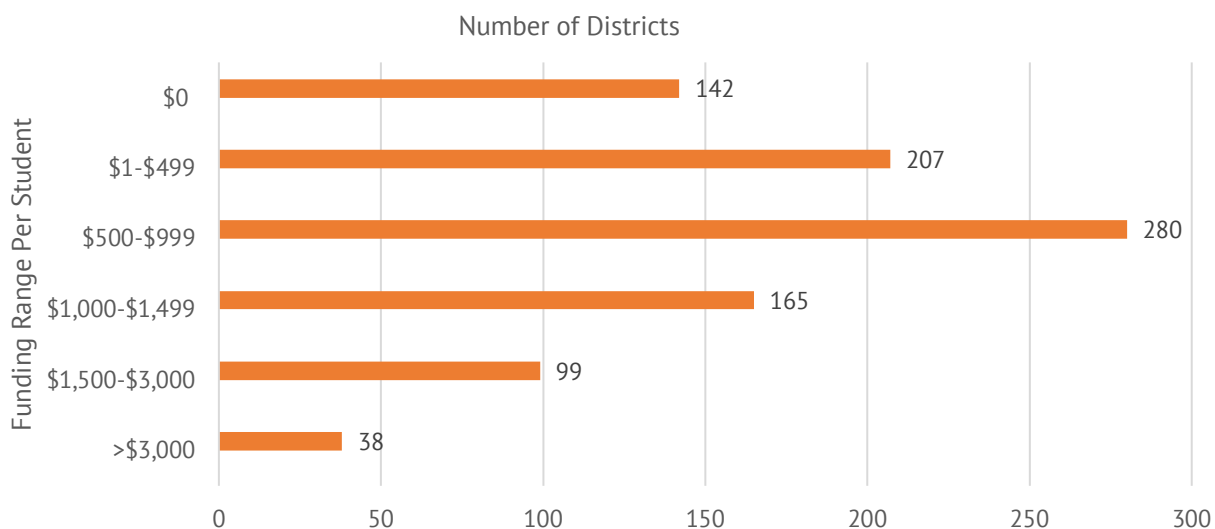
¹² California's estimates are conservative since its approach to declining enrollment funding can also inflate districts' weighted-student funding for disadvantaged students, which isn't factored into the analysis. The formula aid figures provided throughout this study are based on state-calculated revenue entitlements, to which both state and local dollars contributed. As a result, the estimates provided are more conservative than if they were based entirely on state aid amounts.

TABLE 2: TOP 10 DISTRICTS IN TOTAL DECLINING ENROLLMENT FUNDING IN CALIFORNIA

School District	Total Declining Enrollment Funding	Declining Enrollment Funding Per Student	Poverty Rate	Actual Student Count	Ghost Student Count (additional funded students)	Share of Formula Aid
Los Angeles Unified School District	\$507,739,328	\$1,459	21.2%	348,001	50,417	8.3%
San Diego City Unified School District	\$90,902,541	\$1,052	12.6%	86,369	8,690	7.6%
Long Beach Unified School District	\$73,764,041	\$1,240	17.0%	59,480	7,238	8.8%
Santa Ana Unified School District	\$59,273,942	\$1,617	15.5%	36,664	5,910	9.9%
Capistrano Unified School District	\$45,700,384	\$1,171	5.9%	39,030	4,501	9.5%
Garden Grove Unified School District	\$42,735,723	\$1,204	15.9%	35,493	4,181	7.9%
Fresno Unified School District	\$42,142,888	\$677	34.1%	62,255	4,177	4.4%
San Francisco Unified School District	\$42,052,265	\$936	11.9%	44,905	4,138	6.8%
San Bernardino City Unified School District	\$39,649,356	\$961	20.8%	41,276	3,952	5.9%
West Contra Costa Unified School District	\$39,467,685	\$1,783	14.9%	22,132	3,725	11.9%

Another useful lens is to evaluate hold harmless funding on a per-student basis. Figure 1 arranges districts into funding ranges. Nearly half of California’s school districts received between \$500 to \$1,500 per student in declining enrollment funds. Generally, the districts receiving the highest per-student amounts (over \$1,500 per student) are California’s smallest districts. However, as data provided in the Appendix illustrate, 41 California school districts with student populations of 1,000 or more received over \$1,500 per student in declining enrollment funding. Notable examples include Montebello Unified, Compton Unified, and Santa Ana Unified—all districts with over 10,000 students and more than \$1,700 per student in declining enrollment funding. Remarkably, the majority of districts listed in the Appendix derived between 10% and 20% of their total formula funding from the hold harmless allowance alone.

FIGURE 1: DECLINING ENROLLMENT FUNDING PER STUDENT IN CALIFORNIA

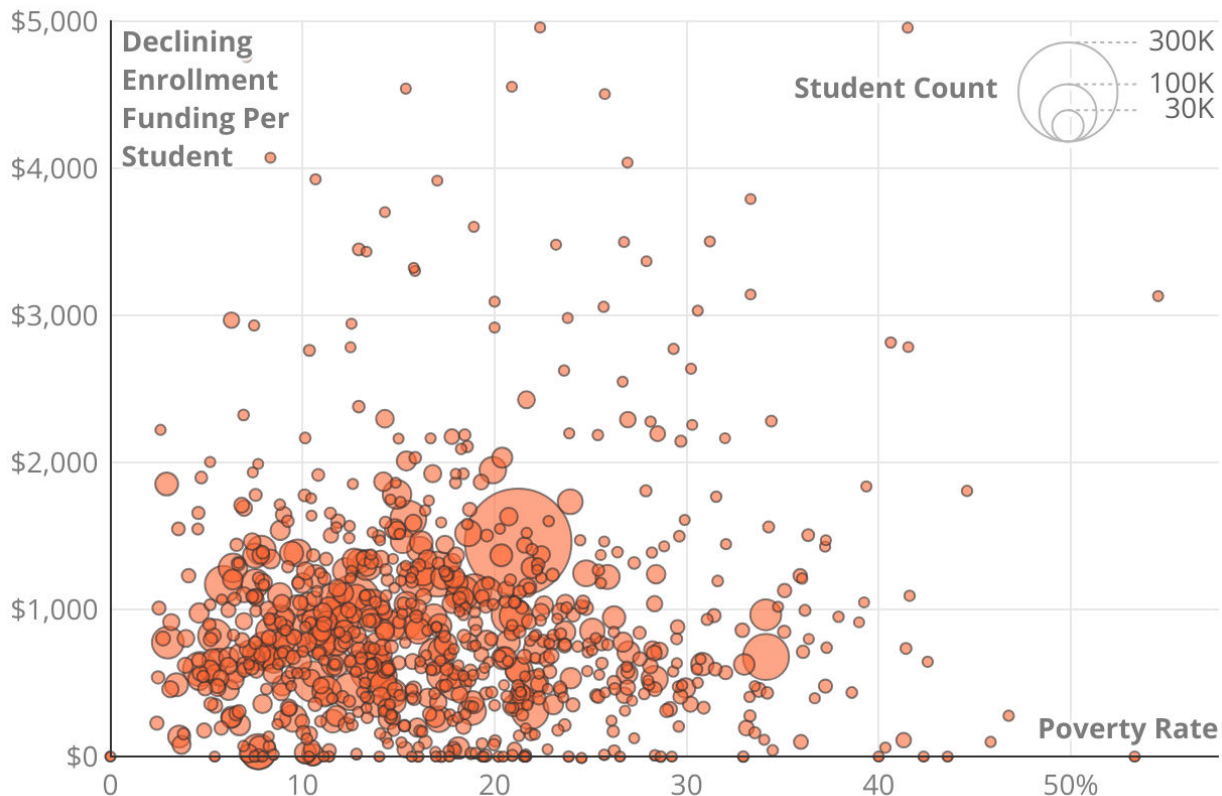


By design, California’s hold harmless policy favors districts that experience the largest enrollment losses, but this doesn’t mean that it directs funds to those with higher-need students. As Table 3 summarizes, the relationship between districts’ declining enrollment funding and student poverty rates is tenuous, with the highest-poverty districts (Quartile 4) receiving fewer hold harmless dollars per student on average than Quartile 2 and Quartile 3 school districts. Figure 2 shows declining enrollment funding per student by poverty rate for all of California’s traditional public school districts (excluding basic state aid districts), including those that didn’t receive declining enrollment funding. Again, notice that there isn’t a strong relationship between school district poverty rate and declining enrollment funding.

TABLE 3: DECLINING ENROLLMENT FUNDING PER STUDENT BY DISTRICT POVERTY QUARTILE IN CALIFORNIA

Poverty Quartile	Average Declining Enrollment Funding Per Student	Number of Students
Quartile 1 (Lowest Poverty)	\$787	1,295,308
Quartile 2	\$905	1,344,147
Quartile 3	\$1,029	1,365,051
Quartile 4 (Highest Poverty)	\$826	508,146

FIGURE 2: DECLINING ENROLLMENT FUNDING PER STUDENT BY DISTRICT POVERTY RATE IN CALIFORNIA



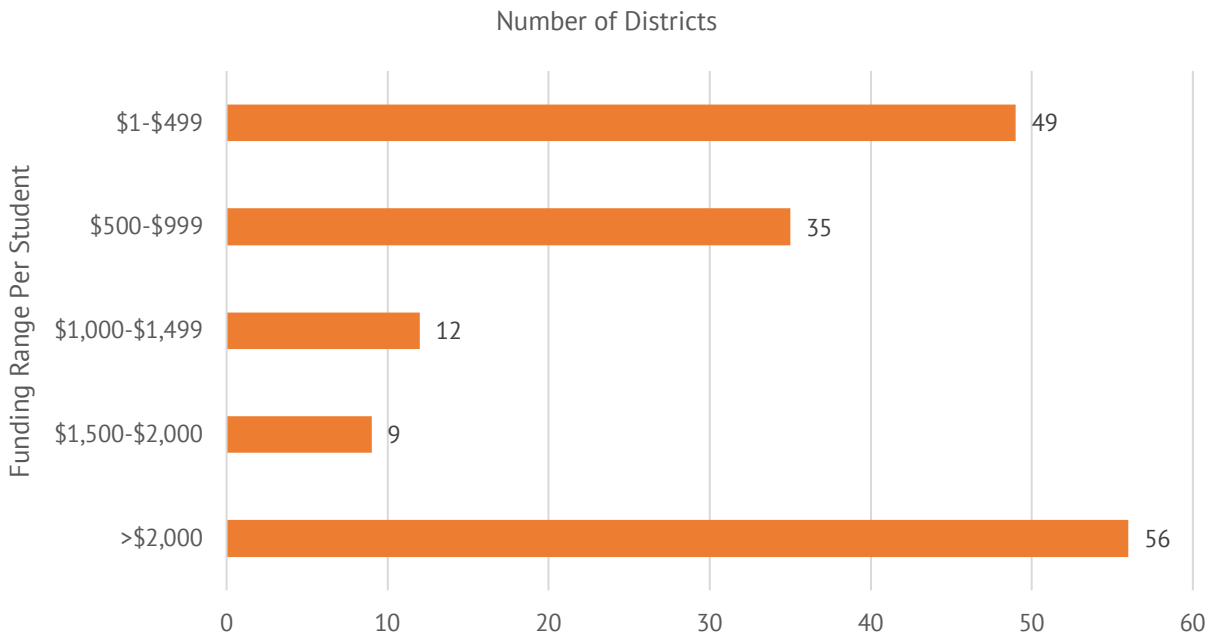
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CALIFORNIA'S MINIMUM STATE AID GUARANTEE

In contrast to declining enrollment funding, California’s Minimum State Aid Guarantee (MSA)—a funding guarantee—is most often directed to off-formula school districts. This is by design since the MSA is intended to direct a minimum amount of state funding to each California school district, which results in the policy directing most funds to districts that otherwise wouldn’t receive any state aid. In 2022-23, 148 districts—111 of them being Basic State Aid districts—received MSA funding totaling \$186.1 million. When the 13 additional charter schools are included in the dataset, this statewide amount rises slightly to \$186.6 million. Notably, the largest beneficiaries of California’s MSA guarantee are the state’s county offices of education. When these 58 county offices, which support school districts and charter schools with various services, are included in MSA funding, total statewide MSA funding almost doubles to \$341.8 million.

Leaving aside county offices of education, MSA funding amounts per student vary substantially for school districts and charter schools because of the arbitrary funding floor they set. Low-poverty, wealthy districts including Santa Monica-Malibu Unified and Pacific Grove Unified—which have poverty rates of 10.6% and 6.4%, respectively—each received over \$1,000 per student in MSA funding. Santa Monica-Malibu received \$1,043 per student, and Pacific Grove received \$1,624 per student. However, like the declining enrollment funding, the largest beneficiaries of MSA in per-student terms are the smallest districts.¹³ Figure 3 shows the count of MSA districts by per-student funding range.

FIGURE 3: MINIMUM STATE AID GUARANTEE FUNDING PER STUDENT IN CALIFORNIA



¹³ The average enrollment for MSA districts in California is 1,746, while the average enrollment for all of the state districts is 5,068.

PART 3

MISSOURI'S DECLINING ENROLLMENT FUNDING, LARGE SCHOOL HOLD HARMLESS, AND SMALL SCHOOL HOLD HARMLESS

Missouri's declining enrollment provision funds school districts based on the highest of the current year, prior year, or second prior-year ADA.¹⁴ Prior to 2022-23, charter schools were not eligible for declining enrollment funding. The Show Me State also has two additional hold harmless provisions baked into its formula: districts with a prior year ADA greater than 350 are guaranteed at least their per-pupil state aid amount in 2005-06, while those with a prior-year ADA of 350 or less are guaranteed at least their state aid amount in the higher of either 2004-05 or 2005-06.¹⁵ These hold harmless policies are analyzed separately below.

¹⁴ "Missouri School Funding Formula," Missouri Department of Elementary and Secondary Education, [dese.mo.gov](https://dese.mo.gov/media/pdf/missouri-school-funding-formula), March 2023. <https://dese.mo.gov/media/pdf/missouri-school-funding-formula> (8 Dec 2023).

¹⁵ Ibid.

3.1 MISSOURI'S DECLINING ENROLLMENT PROVISION

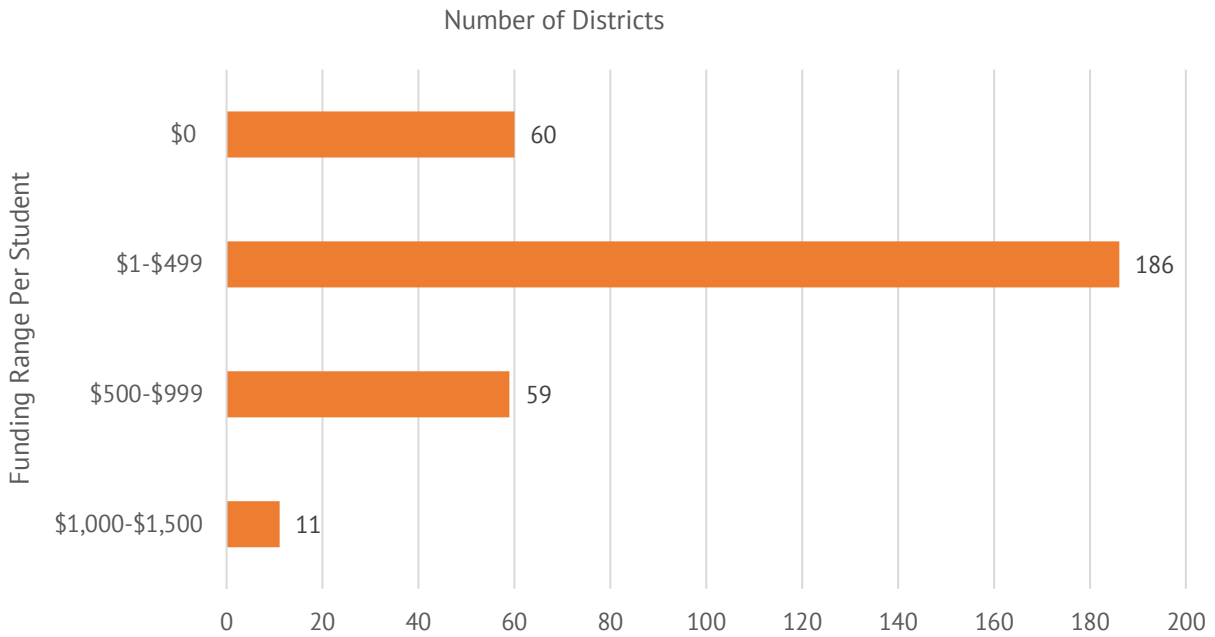
In 2021-22, 256 of 518 school districts—or 49.4%—received additional funding due to the state's declining enrollment provision. It is estimated that there were 44,997 ghost students statewide, at a total cost of \$197.04 million—about 4.7% of state formula aid that year. Table 4 displays the top 10 beneficiaries of Missouri's declining enrollment policy in total funding terms. Springfield R-XII School District topped the list at \$19.1 million, which accounted for 11.3% of its formula funding. Additionally, two of the lowest-poverty districts in the state, Rockwood R-VI and Ft. Zumwalt R-II, received \$7.2 million and \$5.5 million in declining enrollment funds, respectively.

TABLE 4: TOP 10 DISTRICTS IN TOTAL DECLINING ENROLLMENT FUNDING IN MISSOURI

School District	Total Declining Enrollment Funding	Declining Enrollment Funding Per Student	Poverty Rate	Actual Student Count	Ghost Student Count (additional funded students)	Share of Formula Aid
Springfield R-XII School District	\$19,112,601	\$987	14.9%	19,361	2,916	11.3%
Hazelwood School District	\$11,074,026	\$831	19.3%	13,329	1,591	9.5%
Rockwood R-VI School District	\$7,205,647	\$411	3.2%	17,514	1,035	5.5%
St. Joseph School District	\$6,392,851	\$707	22.7%	9,039	966	8.3%
Raytown C-2 School District	\$6,269,550	\$939	16.9%	6,674	912	10.0%
Columbia 93 School District	\$5,678,598	\$359	12.0%	15,803	862	4.6%
Ft. Zumwalt R-II School District	\$5,544,884	\$354	5.1%	15,645	797	4.6%
Independence 30 School District	\$5,494,920	\$450	18.5%	12,213	800	5.2%
Lee's Summit R-VII School District	\$4,641,516	\$287	5.5%	16,197	675	3.9%
Fox C-6 School District	\$4,615,798	\$471	8.2%	9,790	663	5.9%

In per-student terms, Missouri's 256 declining enrollment recipient districts varied in the amount of funds they received. Figure 4 shows that roughly three out of four of the state's declining enrollment funding districts received less than \$500 per student. Additionally, 60 districts received no hold harmless funding at all (i.e. neither declining enrollment funding nor a small or large school funding guarantee). The downward trend across funding ranges illustrates that most of the beneficiary districts have had modest enrollment declines relative to their population of students.

FIGURE 4: DECLINING ENROLLMENT FUNDING PER STUDENT IN MISSOURI

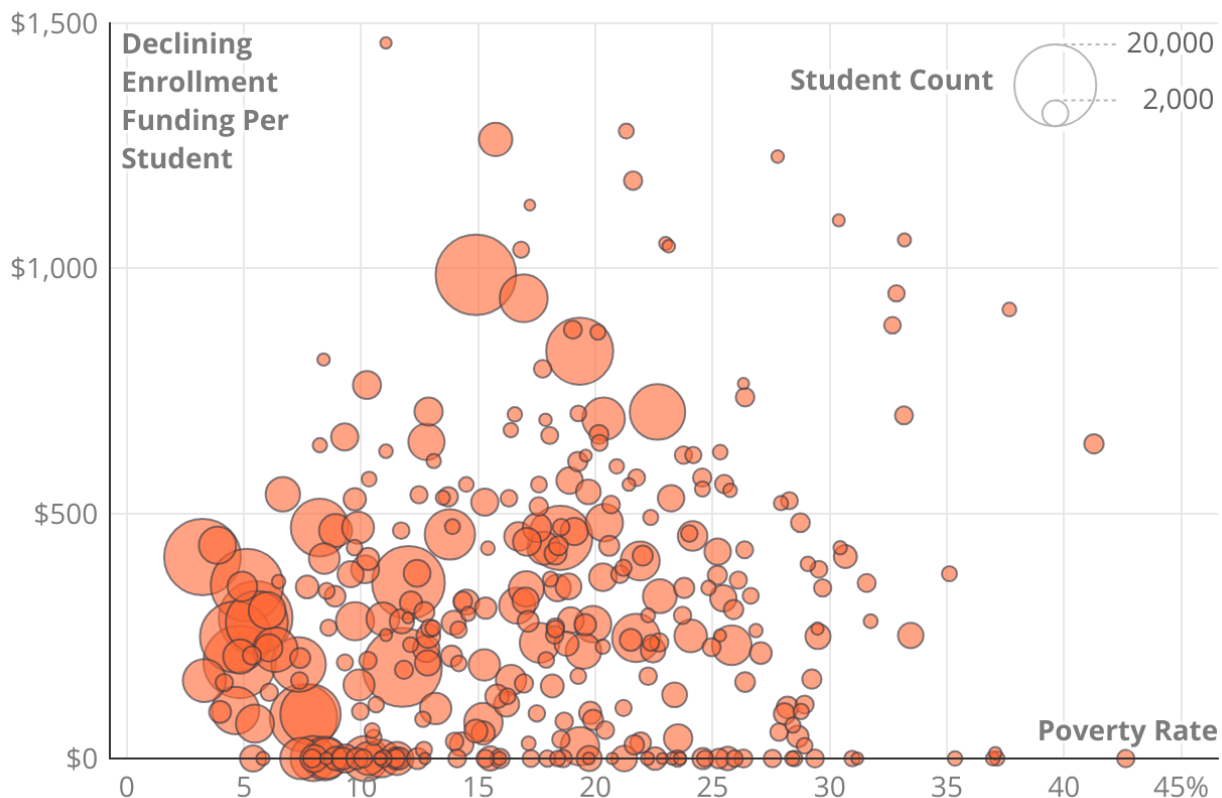


Finally, Missouri’s declining enrollment funding is weakly related to school district poverty rates. Table 5 shows that, on average, Missouri school districts in the second and third poverty quartiles are the largest beneficiaries of declining enrollment funding, while the highest-poverty quartile school districts received less. Figure 5 includes 316 school districts—all that received either declining enrollment funding or no hold harmless funding at all (i.e. neither declining enrollment funding nor a large or small school funding guarantee)—and further illustrates this relationship. School district poverty rate and declining enrollment funding aren’t strongly related.

TABLE 5: DECLINING ENROLLMENT FUNDING PER STUDENT BY DISTRICT POVERTY QUARTILE IN MISSOURI

Poverty Quartile	Average Declining Enrollment Funding Per Student	Number of Students
Quartile 1 (Lowest Poverty)	\$225	267,922
Quartile 2	\$426	158,182
Quartile 3	\$424	124,474
Quartile 4 (Highest Poverty)	\$282	58,459

FIGURE 5: DECLINING ENROLLMENT FUNDING PER STUDENT BY DISTRICT POVERTY RATE IN MISSOURI

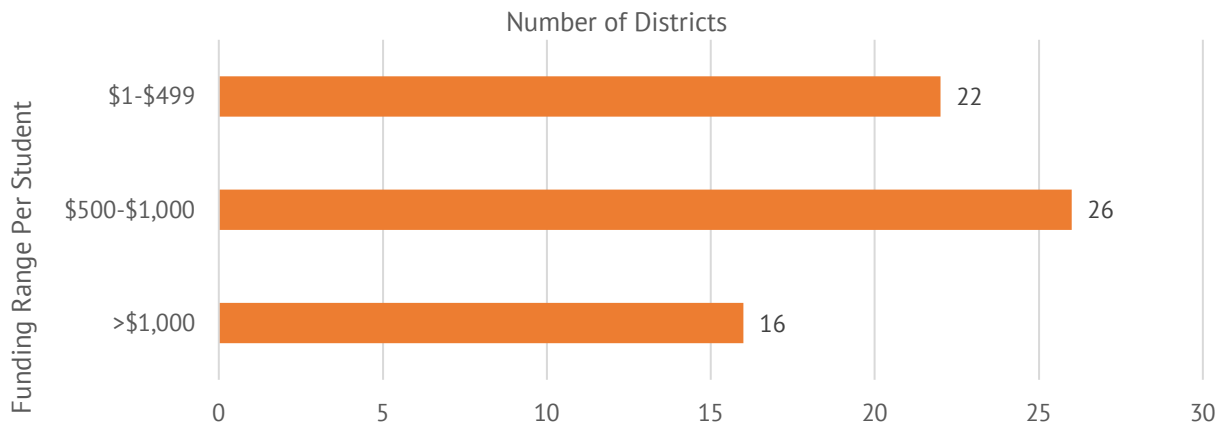


3.2

MISSOURI'S LARGE SCHOOL AND SMALL SCHOOL HOLD HARMLESS PROVISIONS

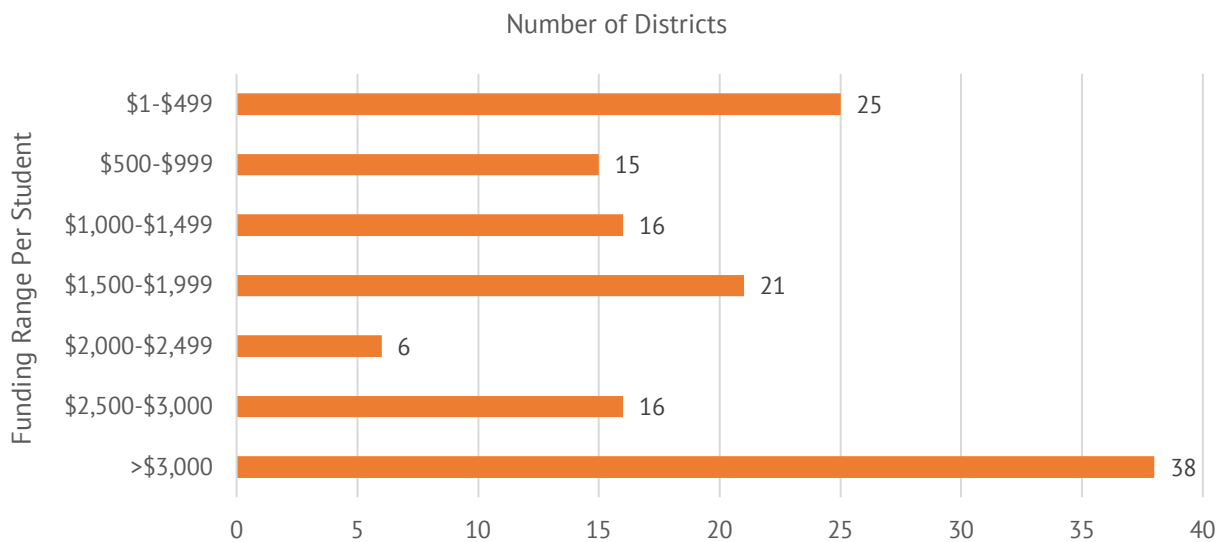
Missouri’s next largest hold harmless provision is its large school hold harmless (LSHH), which is a funding guarantee. In 2021-22, 64 school districts benefited from it, totaling \$95.6 million. The LSHH benefits a smaller number of districts than the declining enrollment provision, but these districts tend to receive higher amounts per student as a result of the policy. As Figure 6 shows, LSHH districts receive a wider range of funding per student in comparison to declining enrollment districts. While 48 of the 64 districts receive less than \$1,000 per student from the provision, there are some noteworthy outliers, with some districts highly dependent on this additional funding. For example, University City school district received \$2,615 per student from the LSHH, which comprised 22.4% of the district’s formula funding. In fact, five Missouri school districts—Tarkio R-I, Normandy Schools Collaborative, University City, North Andrew County. R-VI, and New Madrid County R-I—received over \$2,000 per student from the LSHH.

FIGURE 6: LARGE SCHOOLS HOLD HARMLESS FUNDING PER STUDENT IN MISSOURI



Finally, the small school hold harmless (SSHH)—a separate funding guarantee—totaled \$38.4 million and benefited 136 of the state’s school districts. While the SSHH is the smallest of the three policies in total dollar terms, Figure 7 indicates that SSHH districts are the most hold harmless dependent of the three groups. Their per-student hold harmless funding amounts tend to be far higher than districts funded by the other two policies, and the average SSHH district receives 23.5% of its formula funding from the program.¹⁶

FIGURE 7: SMALL SCHOOLS HOLD HARMLESS FUNDING PER STUDENT



¹⁶ Total hold harmless funding amounts were divided by total formula revenue entitlement for all 136 SSHH districts, yielding the average share of district formula funding coming from hold harmless dollars.

Notably, school districts receiving the LSHH and SSHH have average poverty rates of 18.6% and 18.8%, respectively. Both rates are slightly higher than the statewide average school district poverty rate of 14.5%. However, these provisions also sometimes benefit property-wealthy districts that already raise more than their state-determined formula amounts from local taxes alone. In fact, there are 10 LSHH districts that don't otherwise qualify for state formula aid. For example, Clayton and Brentwood school districts each raise about double their formula amounts from local funds, both have poverty rates under 5% and they are two of the highest-funded school districts in the state. Despite these facts, they respectively receive \$546 and \$580 per student in state LSHH funds. Similarly, seven more property-wealthy SSHH districts also wouldn't otherwise qualify for state aid.

The fact that many property-wealthy districts can benefit heavily from these hold harmless provisions illustrates how they undermine the main goal of a foundation formula, which is to equalize funding differences stemming from local wealth variances across school districts.

PART 4

OKLAHOMA

Oklahoma's declining enrollment provision funds school districts based on weighted average daily membership (WADM) from the first nine weeks of the current school year or the final WADM of the preceding school year, whichever is greater.¹⁷ Charter schools were eligible for this funding in the school year examined.¹⁸ State aid is allocated through two separate funding formulas: foundation aid and salary incentive aid. Each formula has different equalization criteria, meaning districts can be off-formula under either of the formulas, neither formula, or both.

4.1

OKLAHOMA'S DECLINING ENROLLMENT PROVISION

In 2022-23, 155 of 541 school districts—or 28.7%—received additional funding due to the state's declining enrollment provision. It is estimated that there were 3,777 ghost students statewide, at a total cost of \$14.03 million—about 0.6% of formula aid that year. Table 6 displays the top 10 beneficiary districts of the state's declining enrollment policy. While these 10 districts are the largest recipients in total funding terms, the funding they received in per-student terms varied widely due to differences in district enrollment. For instance, Muskogee benefited most in total declining enrollment funding (\$464,821) but only

¹⁷ 70 O.S. § 18-201.1 (OSCN 2023)

¹⁸ The state has a separate policy for virtual charter schools, which were therefore excluded from this analysis.

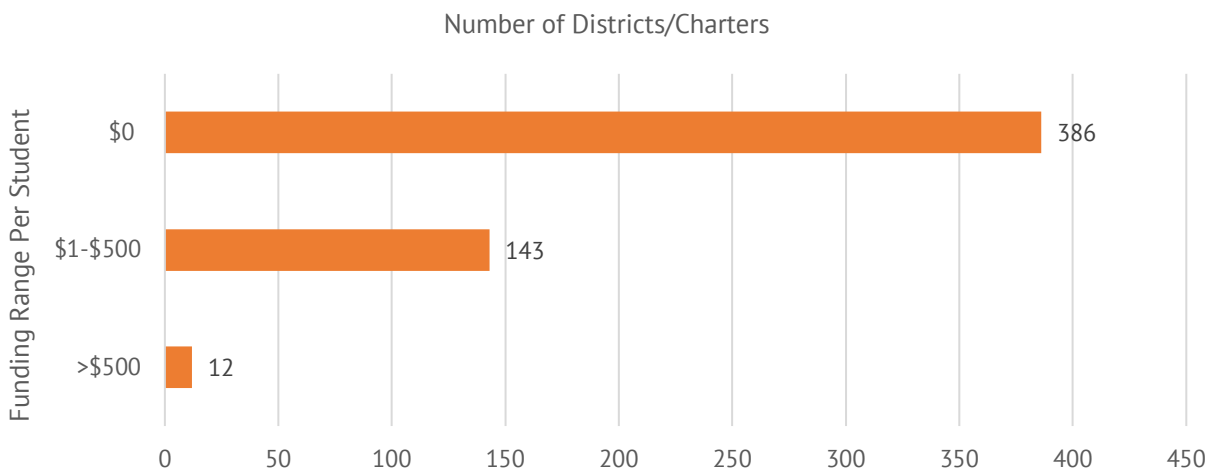
received about \$59 per student. In comparison, Oaks-Mission generated fewer total dollars (\$346,345) but generated more per student (\$1,229).

TABLE 6: TOP 10 DISTRICTS IN TOTAL DECLINING ENROLLMENT FUNDING IN OKLAHOMA

School District	Total Declining Enrollment Funding	Declining Enrollment Funding Per Student	Poverty Rate	Actual Student Count	Ghost Student Count (additional funded students)	Share of Formula Aid
Muskogee	\$464,821	\$59	28.7%	7,861	121	2.8%
Sallisaw	\$438,185	\$150	27.2%	2,922	114	7.0%
Oaks-Mission	\$346,345	\$1,229	25.5%	282	90	45.1%
Westville	\$344,228	\$203	25.3%	1,696	89	9.3%
Astec Charters	\$329,909	\$168	NA (Charter)	1,964	86	7.8%
Bethany	\$325,098	\$101	18.3%	3,225	84	4.8%
Paoli	\$271,941	\$902	13.4%	302	71	35.4%
Fairland	\$255,505	\$276	21.1%	925	66	12.5%
Tupelo	\$254,928	\$528	32.2%	483	66	22.5%
Frederick	\$247,845	\$179	24.5%	1,383	64	8.3%

Figure 8 displays Oklahoma’s hold harmless funding policy for all school districts and charter schools, dividing them into per-student funding ranges. Most of the state’s districts—386—received no hold harmless funding, either because their current enrollment is higher than the prior year’s enrollment or because they are off-formula (i.e. don’t receive state aid under both of Oklahoma’s funding formulas).

FIGURE 8: DECLINING ENROLLMENT FUNDING PER STUDENT IN OKLAHOMA

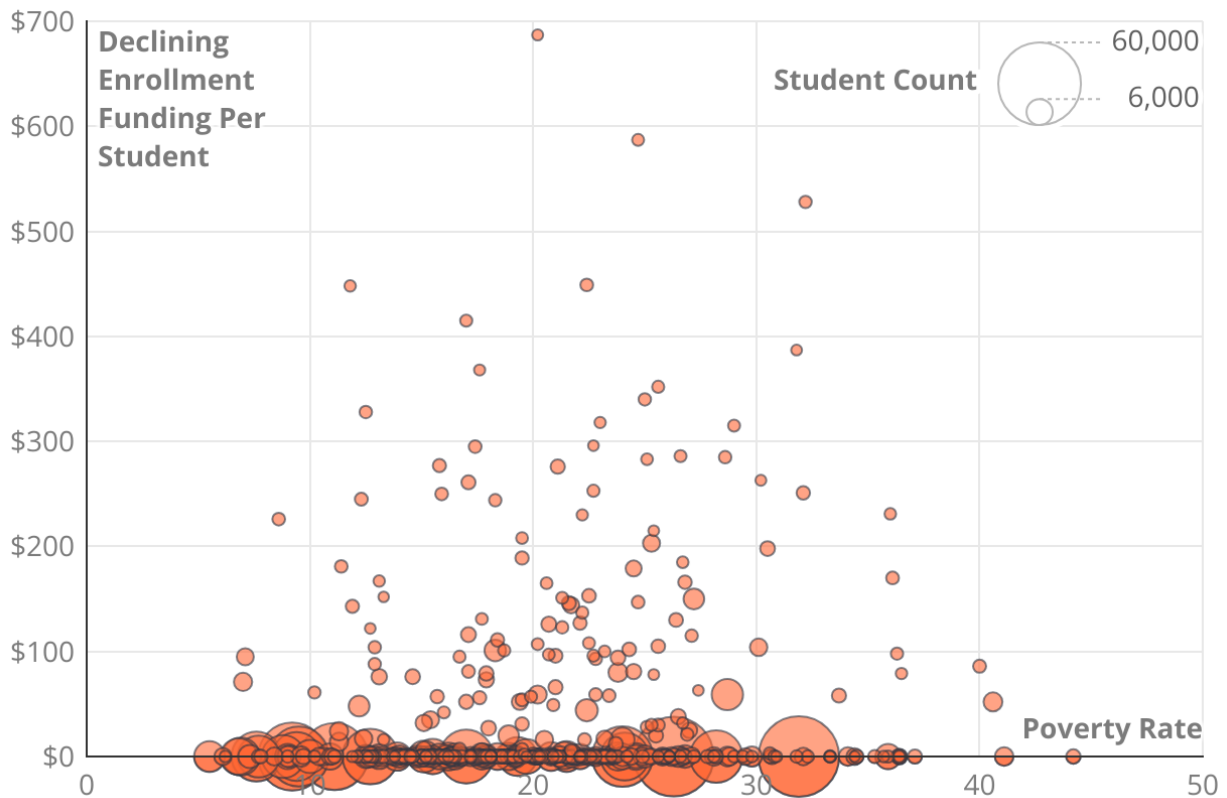


Finally, Oklahoma’s declining enrollment funding has a modest relationship with school district poverty levels. Table 7 and Figure 9 show that the state’s lower-poverty school districts receive less on average than the state’s higher-poverty school districts. However, because most Oklahoma school districts don’t receive any declining enrollment funding, the average per-student funding each district generates from the policy is low.

TABLE 7: DECLINING ENROLLMENT FUNDING PER STUDENT BY DISTRICT POVERTY QUARTILE IN OKLAHOMA

Poverty Quartile	Declining Enrollment Hold Harmless Funding Per Student	Number of Students
Quartile 1 (Lowest Poverty)	\$6	410,086
Quartile 2	\$13	192,019
Quartile 3	\$19	166,077
Quartile 4 (Highest Poverty)	\$19	277,215

FIGURE 9: DECLINING ENROLLMENT FUNDING PER STUDENT BY DISTRICT POVERTY RATE IN OKLAHOMA



PART 5

ANALYSIS: KEY INSIGHTS AND POLICY IMPLICATIONS

The findings in this study provide three key insights for policymakers across states.

#1 DECLINING ENROLLMENT PROVISIONS CAN BE COSTLY, BUT CONTEXT MATTERS.

Table 8 summarizes the estimated cost of declining enrollment policies in each of the three states examined. California and Missouri illustrate how these provisions consume a substantial portion of state education budgets during periods of widespread enrollment losses. Notably, both states had one district that disproportionately benefited from the policy: Los Angeles Unified School District received 12.5% of California's estimated declining enrollment funding, while Springfield R-XII School District received 9.7% of Missouri's estimated declining enrolment funding.

In contrast, Oklahoma only allocated a modest portion of its state formula aid through hold harmless, and its top recipient (Muskogee) only generated 3.3% of the estimated funding. This is due largely to the fact that statewide enrollment increased in the school year examined, but it's also notable that the state had a less generous look-back provision (i.e., only one year while California and Missouri allow for multiple years).

TABLE 8: COMPARING DECLINING ENROLLMENT PROVISIONS ACROSS STATES

State	Estimated Cost	Share of Formula Aid	Share of Recipient School Districts	NCES Projected Statewide Enrollment Change: 2021- 2031
California	\$4.061 billion	6.2%	84.7%	-16.1%
Missouri	\$197.04 million	4.7%	49.4%	-3.5%
Oklahoma	\$14.03 million	0.6%	28.7%	0.1%

For policymakers, it is critical to know exactly what declining enrollment policies cost so that they can evaluate the tradeoffs over how dollars are used. This is especially crucial in the post-COVID-19 era, with many states forecasted to see substantial declines in public school enrollment over the next decade.¹⁹ As Table 8 shows, the National Center for Education Statistics projects that two of the three states examined in this study will have further enrollment losses through 2031. This means the annual cost of declining enrollment policies won't be going away and is likely to increase, especially in California. While hold harmless provisions are designed to help school districts navigate these challenges, policymakers must be strategic about how K-12 dollars are used in pursuit of their goals in public education. In other words, they must have a clear accounting of the opportunity costs of these funding mechanisms. As they become costlier, policymakers can look to states such as Texas, Arizona, and Indiana, which all fund school districts based on current-year enrollment counts.²⁰ Alternatively, lawmakers can make their provisions less generous, as Oklahoma did in 2021 by going from a two-year look back to a one-year look back.²¹

#2 FUNDING GUARANTEES CAN ALLOCATE DOLLARS ARBITRARILY AND UNDERMINE STATE FUNDING FORMULAS.

Most K-12 funding formulas—including those operated by California, Missouri, and Oklahoma—are foundation programs that are designed to mitigate funding differences that are caused by local wealth variations. By allocating dollars outside of these equalization

¹⁹ “Digest of Education Statistics: Table 203.20,” National Center for Education Statistics.

²⁰ Lueken, “How States Protect Funding for K-12 Public Schools.”

²¹ HB 2078, Oklahoma State Legislature, 2021 Regular Session. www.oklegislature.gov/BillInfo.aspx?Bill=HB%202078&Session=2100 (11 Dec 2023).

mechanisms, hold harmless policies can allocate dollars arbitrarily and undermine this policy objective. For instance, California’s MSA guarantee—which allocated funding based on 2012-2013 school year funding levels—disproportionately benefited the state’s off-formula school districts, which otherwise don’t qualify for state formula aid. In total, \$126.6 million in MSA funding was allocated to these 111 off-formula districts, including Santa Monica-Malibu Unified and Pacific Grove Unified, which received \$1,043 per student and \$1,624 per student, respectively.

Similarly, Missouri’s LSHH and SSHH policies guarantee that school districts won’t receive less state funding per-student than they did in 2005-2006 (LSHH and SSHH) or 2004-2005 (only for SSHH). These policies sent state dollars to a total of 17 off-formula school districts, including Clayton and Brentwood, two of the highest-funded school districts in the state. These districts each spent in excess of \$20,000 per student but still received \$546 per student and \$580 per student in hold harmless aid, respectively.²²

For policymakers, the implication is clear: hold harmless provisions can long outlive their intended purpose and allocate dollars in an arbitrary way that is no longer tied to a strategic purpose. Although these allocations might be entrenched in statute, lawmakers essentially sign off on them each year they persist. Eliminating outdated hold harmless policies can be politically challenging, but is a worthwhile policy goal.

#3 THE RELATIONSHIP BETWEEN DECLINING ENROLLMENT FUNDING AND SCHOOL DISTRICT POVERTY RATES IS TENUOUS.

Declining enrollment policies aren’t necessarily intended to direct additional aid to high-poverty school districts, but this relationship is nevertheless an important consideration. Across the three states examined, there isn’t a clear relationship between declining enrollment funding and school district poverty levels. For instance, California’s highest-poverty school districts (Quartile 4) received less declining enrollment funding on average than its lower-poverty school districts (Quartiles 2 and 3).

²² Missouri Department of Elementary and Secondary Education, Per Pupil District & Building Level Expenditures Report, 2022. <https://apps.dese.mo.gov/MCDS/home.aspx?categoryid=1&view=2> (12 Dec. 2023).

Policymakers can't assume that declining enrollment funding benefits high-need school districts as measured by student poverty. If targeting additional dollars to low-income students is a policy goal, there are more effective ways to accomplish this. For instance, all states examined in this study have funding weights in their formulas that provide additional resources for economically disadvantaged students. This is a more precise and transparent approach to divvying up education dollars.

PART 6

CONCLUSION

Many states employ hold harmless policies similar to those examined in California, Missouri, and Oklahoma. Policymakers in each state should evaluate the cost of these policies, their distribution patterns, and whether they've outgrown their original purpose. In a context where states are still rebounding from COVID-19 enrollment shocks and many are projected to have stagnating or declining K-12 populations over the next decade, it becomes increasingly expensive to shield districts from the resulting financial effects. Ultimately, legislators should ensure that K-12 dollars are tied to their strategic goals for public education.

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APPENDIX: METHODOLOGY

CALIFORNIA

Funding data for 2022-23 was obtained from the California Department of Education's (CDE) website. This dataset included the average daily attendance (ADA) counts used to determine each district's funding, which was based on the highest of current, prior, or the average of the three most recent prior years' ADA. Actual ADA counts for the same year and apportionment were then obtained separately via e-mail from CDE. County offices of education, off-formula school districts (i.e. California's Basic Aid districts), and several districts that were not included in both datasets were removed from the analysis. For the remaining 818 school districts, the number of ghost students were then calculated, disaggregated by four grade-level spans (TK-3, 4-6, 7-8, and 9-12) to align with how the state allocates its base funding amounts. These results were then multiplied by their respective per-student allotments that were obtained from CDE's website—\$10,119, \$9,304, \$9,580, and \$11,391—to produce cost estimates for each school district.²³ Notably, state aid for charter schools was based on current-year ADA counts and they were not included in the declining enrollment analysis. Finally, the MSA Guarantee amounts received by all 931 school districts included in the dataset were tallied, as were the MSA amounts received by charter schools.

²³ Local Control Funding Formula Overview.

TABLE A-1: MID-SIZE AND LARGE SCHOOL DISTRICTS RECEIVING OVER \$1,500 PER STUDENT IN HOLD HARMLESS FUNDING

School District	Total Declining Enrollment Funding	Declining Enrollment Funding Per Student	Poverty Rate	Actual Student Count	Ghost Student Count (additional funded students)	Share of State Formula
Ravenswood City Elementary School District	\$4,456,000	\$3,449	12.9%	1,292	460	18.2%
Huntington Beach City Elementary School District	\$13,055,375	\$2,968	6.3%	4,398	1,341	21.9%
Inglewood Unified School District	\$13,908,963	\$2,426	21.7%	5,732	1,390	13.6%
Mount Pleasant Elementary School District	\$2,660,440	\$2,379	12.9%	1,118	273	14.7%
Alum Rock Union Elementary School District	\$15,010,737	\$2,297	14.3%	6,535	1,539	13.7%
Mountain View Elementary School District #1	\$10,347,685	\$2,291	26.9%	4,517	1,059	13.0%
Lennox Elementary School District	\$8,400,149	\$2,195	28.5%	3,826	859	12.5%
South Bay Union School District	\$7,923,342	\$2,175	17.8%	3,642	807	13.4%
Baldwin Park Unified School District	\$19,052,474	\$2,032	20.4%	9,375	1,854	11.6%
Los Nietos Elementary School District	\$2,315,215	\$2,031	15.9%	1,140	239	12.6%
Vallejo City Unified School District	\$16,757,712	\$2,010	15.4%	8,339	1,628	12.2%
Montebello Unified School District	\$36,330,787	\$1,948	19.9%	18,655	3,539	11.8%
Azusa Unified School District	\$11,625,773	\$1,924	16.8%	6,042	1,128	11.3%
Auburn Union Elementary School District	\$2,527,244	\$1,915	10.8%	1,320	263	14.2%
Larkspur Elementary School District	\$2,266,038	\$1,897	4.7%	1,195	229	15.9%
San Lorenzo Unified School District	\$14,203,903	\$1,869	14.2%	7,600	1,390	11.7%
National Elementary School District	\$7,249,649	\$1,866	19.3%	3,885	744	11.4%
Cupertino Union Elementary School District	\$24,004,098	\$1,853	2.9%	12,952	2,461	15.1%
West Contra Costa Unified School District	\$39,467,685	\$1,783	14.9%	22,132	3,725	11.9%
Soquel Elementary School District	\$2,634,857	\$1,779	7.6%	1,481	269	14.3%
West Sonoma County Union High School District	\$2,539,914	\$1,776	10.1%	1,431	223	12.2%
Compton Unified School District	\$27,556,511	\$1,733	23.9%	15,905	2,774	9.8%
Moreland School District	\$6,340,985	\$1,709	6.8%	3,710	652	13.5%
Newark Unified School District	\$7,732,460	\$1,690	7.0%	4,575	755	12.5%
Bassett Unified School District	\$4,418,100	\$1,680	18.7%	2,629	440	9.8%
Ross Valley Elementary School District	\$2,659,545	\$1,657	4.6%	1,605	274	14.0%
Jefferson Elementary School District #3	\$7,594,790	\$1,644	9.0%	4,620	778	12.0%
Morongo Unified School District	\$10,728,657	\$1,631	20.7%	6,579	1,061	10.5%
Santa Ana Unified School District	\$59,273,942	\$1,617	15.5%	36,664	5,910	9.9%
Byron Union Elementary School District	\$1,829,457	\$1,600	9.2%	1,143	189	13.1%
Santa Rosa Elementary School District	\$4,472,448	\$1,600	11.8%	2,795	461	11.1%
John Swett Unified School District	\$1,755,509	\$1,592	14.3%	1,103	171	10.6%
Franklin-McKinley Elementary School District	\$8,706,727	\$1,588	15.8%	5,484	897	10.2%
Scotts Valley Unified School District	\$3,062,084	\$1,548	3.5%	1,978	297	12.6%
Bellflower Unified School District	\$14,266,426	\$1,547	14.8%	9,221	1,405	10.0%
Evergreen Elementary School District	\$12,925,837	\$1,538	8.8%	8,403	1,325	12.4%
El Rancho Unified School District	\$10,285,811	\$1,538	14.9%	6,688	1,002	9.8%
Pomona Unified School District	\$27,528,962	\$1,519	18.6%	18,123	2,713	9.0%
Earlimart Elementary School District	\$1,944,059	\$1,505	36.3%	1,292	200	9.0%
Little Lake City Elementary School District	\$5,203,808	\$1,503	11.5%	3,462	535	10.6%
Plumas Unified School District	\$2,202,338	\$1,503	19.6%	1,465	216	9.9%

MISSOURI

Funding data were obtained via e-mail from the Missouri Department of Elementary and Secondary Education (MDESE) for the most recent available school year (2021-22) as well as actual ADA counts for three years—2021-22, 2020-21, and 2019-20. To determine the estimated cost of the state’s declining enrollment provision, all school districts that received hold harmless funding (i.e. large schools hold harmless or small schools hold harmless) were removed from the dataset since these districts were unaffected by the state’s formula calculations. For the remaining districts, ghost student counts were calculated by finding the difference between each district’s highest-year ADA used for funding purposes and their actual ADA in 2021-22. To produce cost estimates for each district, the resulting counts were then multiplied by \$6,375—the state’s base funding amount in 2021-22—and by each district’s respective dollar value modifier, a cost adjustment in the state’s funding formula. Notably, Missouri’s charter schools weren’t eligible for declining enrollment funding during the school year examined and weren’t included in this dataset. The data obtained from MDESE included the actual costs of Missouri’s small schools hold harmless and large schools hold harmless provisions by school district.

OKLAHOMA

Funding and enrollment data for 2022-23 were obtained from the Oklahoma Department of Education’s website. Off-formula school districts that don’t receive state equalization aid were removed from the dataset for each of the state’s two equalization formulas separately. Virtual charter schools were also removed from the dataset, since they’re treated differently under the state’s declining enrollment policy. The resulting data included 138 hold harmless school districts under the state’s foundation formula and 155 hold harmless school districts under its salary incentive aid formula. Charter schools were included in the dataset since they were eligible for declining enrollment funding. For each school district, ghost student counts were calculated by tallying the difference between 2021-22 weighted average daily membership (WADM) and 2022-23 WADM. These figures were then used to produce cost estimates under both funding formulas using \$1,972 per WADM and \$1,877 per WADM for the foundation and salary incentive aid formulas, respectively.

SCHOOL DISTRICT POVERTY DATA

School district poverty data were obtained from the 2021 Small Area Income and Poverty Estimates (SAIPE) School District Estimates, published by the U.S. Census Bureau.²⁴ At the time of writing, these were the most recent figures. Each school district's estimated number of relevant children 5 to 17 years old who are related to the householder were divided by the estimated population in the 5- to 17-year-old age range to arrive at estimated poverty rates. For the 2021 SAIPE estimates, the poverty line is defined as being \$27,479 for a family of four containing two related children. Because charter schools do not exclusively serve students within certain geographic boundaries, SAIPE data are unavailable for public charter schools.

²⁴ "SAIPE School District Estimates for 2021," U.S. Census Bureau, census.gov, December 2022.
<https://www.census.gov/data/datasets/2021/demo/saipe/2021-school-districts.html> (12 December 2023)

