



# How ADA Funding Models Turn Chronic Absenteeism into a Budget Crisis

And What Schools Can Do About It



## I. Abstract

Average Daily Attendance Funding ties school revenue directly to the number of students who show up each day. So, when students miss school, schools lose money, and they lose it regardless of whether fixed costs go down. For small private schools and new school founders, that dynamic creates a compounding budget risk that most school leaders underestimate. That is, until a shortfall appears mid-year.

Nationally, roughly 26% of students qualify as chronically absent, missing 10% or more of the school year. Research from California shows that a single percentage point improvement in average daily attendance, translates to more than \$250 million in additional annual funding across the State. The stakes at the individual school level are proportional and just as real.

This article examines how ADA-based funding models amplify the financial consequences of chronic absenteeism, why equity disparities make the problem harder for under-resourced schools, and what practical steps school leaders can take today, to protect revenue and support students.

# 1. The Financial Mechanics of Average Daily Attendance Funding

Average Daily Attendance Funding is a State-level school finance mechanism that calculates a school's revenue, based on how many students are physically present each day. And then, of course, that's averaged across the school year. So, instead of receiving a fixed payment for each enrolled student, a school receives funding only for the days each student actually attends. The formula sounds simple, but its consequences are anything but.

Most States using ADA-based models set a target attendance rate, typically around 90%, as the baseline for full funding. Schools that maintain attendance above that threshold receive their expected per-pupil allocation. Schools that fall below it receive less, sometimes significantly less, even though their fixed operating costs remain unchanged.

The alternative model, enrollment-based or average daily membership (ADM) funding, pays schools based on how many students are enrolled. That's, regardless of daily attendance. Several States have moved in this direction, particularly following the pandemic, when attendance rates collapsed across the country. The debate between ADA and ADM models sits at the heart of school finance policy right now. And, understanding where your school operates within that debate, directly affects how you manage risk.

## 1.1 How Average Daily Attendance (ADA) Funding Works in Schools at the Operational Level

In practical terms, average daily attendance funding works like this: If your school enrolls 150 students, but only 130 show up on an average day, your ADA rate is approximately 87%. If your State funds schools at a per-pupil rate of \$8,000 per year and your expected attendance target is 90%, you may receive funding calculated on a base closer to 130 students rather than 150. That gap, 20 students multiplied by thousands of dollars each, can represent \$160,000 or more in annual revenue your budget never sees. That introduces a significant problem in terms of viability.

For large public school districts, that loss can be partially absorbed through economies of scale. But, for a smaller private school operating on tight margins, it can derail payroll, facility maintenance, or instructional resources mid-year. The California State PTA has documented this dynamic closely, noting that COVID-era attendance losses and the subsequent debate over enrollment-based funding alternatives reflect how severely ADA models expose smaller and higher-poverty schools to revenue volatility [7].





## 2. The Scale and Trajectory of Chronic Absenteeism in U.S. Schools

Chronic absenteeism is defined as missing 10% or more of the school year. That's typically 18 or more days. According to federal data published by the National Assessment Governing Board (NAGB), approximately 26% of U.S. students are chronically absent. And, that's true while schools broadly (and oddly) maintain an average ADA rate of around 90% [4].

There's an explanation for that disparity. Those two statistics can coexist because chronic absenteeism is not evenly distributed. So, a relatively small number of students with very high absence rates can drag down an otherwise stable school's overall ADA figures. And this can happen without triggering immediate alarm. That concentration effect is precisely why chronic absenteeism is so dangerous. It hides in the averages, until the budget shortfall makes it visible. So, to recap:

**26% of U.S. students are chronically absent** today, missing **10% or more of the school year** [4]. Chronic absenteeism currently runs approximately **75% above pre-pandemic levels** [8], and schools that fail to track it systematically often discover the problem too late to intervene before the financial damage accumulates.

### What's the trend?

The post-pandemic trajectory has made a difficult problem worse. Chronic absenteeism rates that were already climbing before 2020 accelerated sharply during school closures and remote learning periods, and they haven't fully recovered. According to the American Enterprise Institute's Return to Learn Tracker, the most comprehensive national data collection on post-pandemic chronic absenteeism, rates in 2023 remained 75% higher than the pre-pandemic baseline, affecting schools across every demographic and funding model [8].

University of Maryland researchers examining class absence dynamics in secondary schools found that standard ADA metrics can obscure important patterns. Their 2022 study noted that absence behaviors differ significantly by

engagement level, socioeconomic status, and school environment. Meaning, a single aggregate ADA figure does not reveal which students are at risk or why they're missing school [3].

## 2.1 Student Populations Most Affected by Chronic Absenteeism

Research consistently shows that chronic absenteeism clusters exist among students in high-poverty schools, English language learners, students with disabilities, and students experiencing housing instability. A 2019 peer-reviewed study published via the Wing Institute found that absenteeism disproportionately affects schools that are already under-resourced, creating a compounding disadvantage. The schools with the least financial flexibility are the ones most likely to lose ADA funding, due to the populations they serve [2].

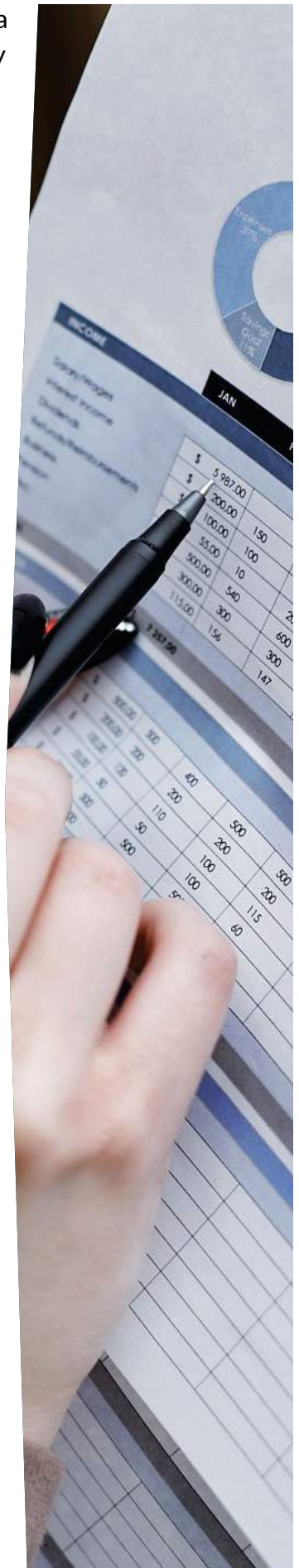
For private school administrators, this finding carries a specific implication. If your school serves a mixed-income population or provides scholarships to students facing economic hardship, your attendance risk profile may be higher than you realize. Building systematic early identification into your operations isn't optional; it's a financial protection strategy.

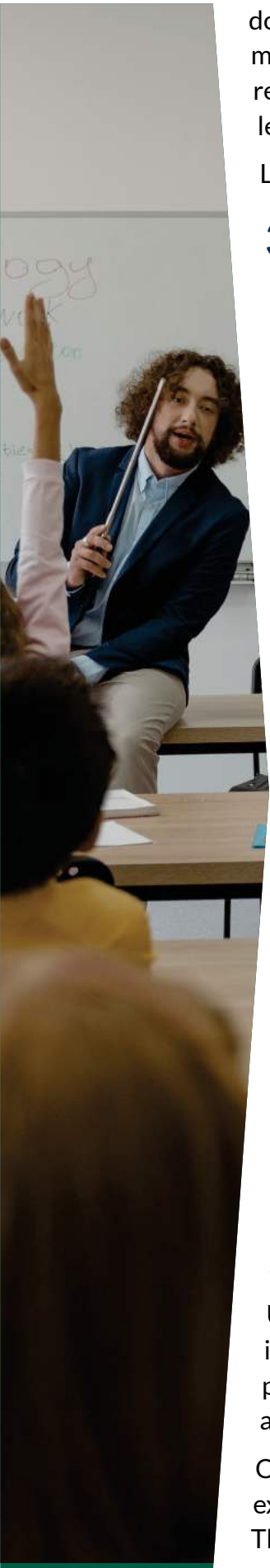
## 3. The Direct Budget Impact of Chronic Absenteeism on School Revenue

The dollar figures attached to chronic absenteeism under ADA funding models are large enough to reshape a school's financial year. The Wing Institute research quantified the scale clearly. A one percentage point improvement in average daily attendance across California schools generates more than \$250 million in additional annual State funding [2]. Scaled down to an individual school, the math is proportionally just as stark.

Consider a school with 200 enrolled students and a per-pupil State funding allocation of \$7,500. At 90% ADA, the school collects funding based on 180 student-days. If chronic absenteeism pushes the effective ADA rate to 85%, that school is now collecting funding based on approximately 170 students. The resulting gap is roughly \$75,000 per year, assuming all else remains equal.

But, all else doesn't really remain equal. Fixed costs don't decrease when students stay home. Teachers still need to be paid, utilities still run, administrative staff still work. A 2022 policy paper from "Every Texan"





documented this structural mismatch directly. Schools do not save meaningful money when individual students are absent, yet they lose ADA funding regardless [6]. The cost asymmetry sits entirely on the school's side of the ledger.

Let's look at how this works at the monthly level.

### 3.1 How Attendance and School Revenue Interact at the Monthly Level

ADA calculations typically happen on a rolling or periodic basis, rather than annually, in one lump sum. Some States calculate ADA on a monthly or quarterly basis. Which means attendance shortfalls can reduce payments throughout the year, rather than triggering a single year-end adjustment. Consequently, for a small private school managing cash flow carefully, that pattern creates real-time pressure, not just a year-end accounting problem.

The practical implication is that attendance data needs to be monitored continuously, not reviewed at the end of a semester. A school that notices its ADA rate slipping from 92% to 87% in October has time to intervene, reach out to “at-risk” families, and stabilize attendance before the financial impact becomes irreversible. Respectively and, as expected, a school that discovers the problem in March is largely managing the aftermath.

## 4. The Equity Dimension: Why Average Daily Attendance (ADA) Funding Hits Smaller Schools Hardest

The California School Boards Association published a governance brief in 2024 that confirmed what researchers and school leaders have long argued. That is, ADA-based funding creates equity disparities, and smaller, higher-poverty schools bear the largest share of the resulting financial burden [5].

The equity gap operates through a straightforward mechanism. Schools serving populations with more attendance barriers, whether due to poverty, health challenges, transportation difficulties, or family instability, have inherently lower ADA rates than schools serving more affluent populations. Under ADA funding, those structural attendance barriers translate directly into lower revenue, giving under-resourced schools less money. And that's precisely when they need more support to address the underlying causes of absenteeism.

On that same note, a 2023 dissertation from Humboldt State University examined this dynamic specifically in Humboldt County elementary schools. The finding was that ADA funding systematically penalizes high-poverty

schools. And, also, that the current model creates perverse incentives that work against the students most in need of stable, well-funded educational environments. The dissertation's author argued for a shift toward enrollment-based funding, as a more equitable alternative [1].

## 4.1 Implications for Private School Founders and Independent School Leaders

For private school founders building institutions from the ground up, this equity context matters for two reasons. First, it clarifies why your attendance problem isn't simply an operational failure, but a structural funding vulnerability. Second, it makes the case for proactive attendance management even stronger. And that's because smaller schools have less financial buffer to absorb the inevitable fluctuations that ADA models create.

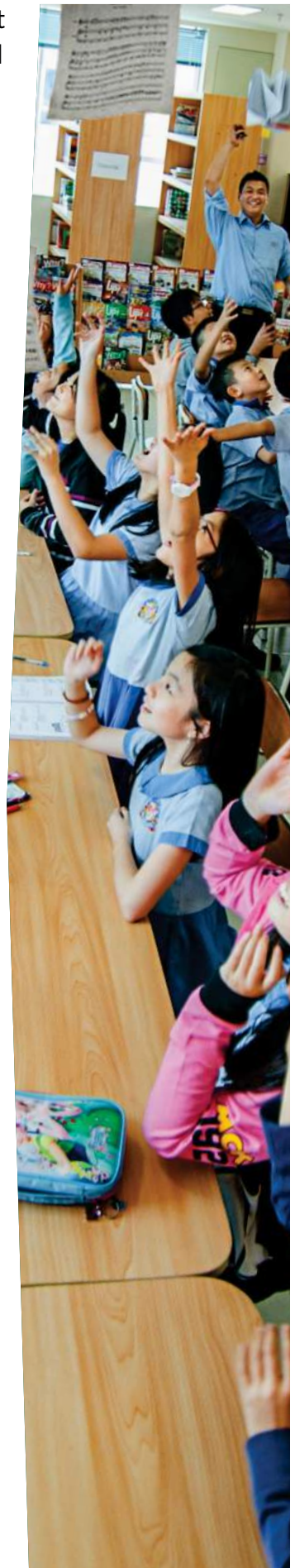
So, founders who design their administrative systems before enrollment scales have the advantage of building visibility into attendance data from day one. That is, of course, rather than retrofitting it after a funding shortfall reveals the gap. The operational cost of building that visibility early is a fraction of the cost of missing it later.

## 5. The Policy Landscape: Enrollment-Based Alternatives and Their Limits

Post-pandemic disruptions to school attendance actually created an opening for advocates of enrollment-based (ADM) funding to advance their case. So, several States have responded with pilot programs, temporary relief measures, or formal legislative proposals. The movement is real, but it's not uniform and, consequently, it's not fast.

California, which operates one of the country's largest ADA-based systems, saw significant legislative activity following COVID. The California State PTA documented these proposals, noting that COVID's impact on attendance created the conditions for a serious policy conversation about moving to an ADM model that would insulate schools from year-to-year attendance volatility [7]. Similarly, the "Every Texan" policy paper argued that Texas's attendance-based funding model leaves too many students, and their schools, behind in a system that rewards definite, stable attendance, rather than the best effort to achieve it [6].

Nevertheless, most States have not made the switch. ADA funding remains the dominant model, and even States exploring alternatives have moved incrementally, rather than comprehensively. The practical implication for





school leaders is clear. Don't plan your budget around a policy change that may not happen in your State this year. Instead, plan your operations around the funding model you have.

## 5.1 What the Average Daily Attendance (ADA) vs. Enrollment-Based Funding Debate Means for School Planning

The ADA versus ADM debate affects strategic planning in two ways. First, schools in States where reform is active should track legislative developments closely, because a switch to enrollment-based funding would fundamentally change the financial risk profile of chronic absenteeism. Second, regardless of funding model, chronic absenteeism damages outcomes beyond the budget, affecting student achievement, school culture, and long-term enrollment. That reality doesn't change if the funding formula changes, does it?

## 6. Early Warning Systems and Practical Interventions for School Leaders

An early warning system for chronic absenteeism doesn't require complex technology or a dedicated analyst. It requires three things, including consistent data collection, defined intervention thresholds and a clear response protocol. Schools that build those three elements into their operations catch attendance problems early enough to address them before they become budget crises.

Research from the Wing Institute and the University of Maryland both point to the same underlying problem. Schools that rely on aggregate attendance data miss the concentration patterns that reveal which individual students are drifting toward chronic absence [2, 3]. A student who misses two days in a row, recovers for a week, and then misses three more days may not appear in weekly averages as a concern. Cumulatively, however, that student is on a chronic absenteeism trajectory.

Effective early warning systems track attendance at the individual student level. They flag students at defined thresholds (commonly 5%, 8%, and 10% of days missed), and trigger outreach protocols at each level. Automated systems that generate these flags without requiring manual data review are particularly valuable in small schools, where administrative bandwidth is limited.

## 6.1 Interventions with the Strongest Evidence Base

Research and practice point to a consistent set of interventions that move the needle on chronic absenteeism. The following approaches have the strongest evidence base:

- **Proactive family contact, at first signs of emerging absence patterns.** Early outreach, before a student reaches the chronic threshold, is consistently more effective than reactive interventions after chronic absence is established.
- **Root cause identification.** Attendance barriers vary by student. Transportation, illness, family obligations, disengagement, and safety concerns, each require different responses. As such, schools that treat all absences identically miss the specificity needed to intervene effectively.
- **Attendance data transparency for teachers and parents.** When teachers have real-time visibility into their students' cumulative absence data, they catch patterns earlier. And when parents can see attendance records anytime, minor misunderstandings about absences get corrected before they compound.
- **Automated parent notifications at absence events.** Immediate notification of an unexcused absence gives families the opportunity to respond the same day, rather than days or weeks later. Schools that notify families in real time report faster resolution of ambiguous absences.
- **Regular attendance reporting at the administrative level.** Scheduling consistent weekly reviews of school-wide and individual attendance data builds the habit of early identification into administrative routines.

### Early warning systems

Federal research from the Institute of Education Sciences confirms that early warning systems are a promising strategy for reducing chronic absenteeism, with findings pointing to timely data and targeted outreach as the core mechanisms [9]. Separately, randomized field trials conducted through Harvard University's Kaneb Center for Education Policy Research, found that sending parents personalized information about their child's cumulative absence totals measurably reduced future days missed [10]. The consistent finding across both bodies of research is that making absence visible in real time, rather than in retrospect, changes behavior before patterns become entrenched.





## 7. What This Evidence Tells Us From a Synthesis and Practitioner Perspective

The findings above draw on seven independent sources, spanning peer-reviewed research, federal data, State policy analysis, and institutional governance briefs. Each source addresses a discrete piece of the problem. In this section, we'll attempt to step back from the individual findings, to consider what they imply when read together, and what experienced school operators recognize as true that the research record doesn't directly measure. In other words:

The synthesis below represents editorial conclusions drawn from the cited evidence. The practitioner observations that follow reflect operational realities recognized by school administrators and founders. That means they are not drawn from cited research and are presented as such.

### 7.1 What the Research, Taken Together, Implies

No single source in this article makes the following observation, but the evidence across all of them points toward it. That goes to say, schools operating under ADA funding models currently face a convergence of risk factors that is, at least historically, unusual in its density.

Chronic absenteeism remains approximately 75% above pre-pandemic levels. ADA funding converts every absent student-day into a direct revenue loss, while fixed costs hold steady. We saw that the partial populations most likely to generate chronic absenteeism are concentrated in the schools with the least financial buffer to absorb the resulting funding gaps. And the policy movement toward enrollment-based alternatives, while real, is proceeding slowly enough that it seems most schools will carry full ADA exposure through at least the next several funding cycles.

Individually, each of these conditions has existed before. What the evidence implies, when read together, is that they're operating simultaneously and in the same direction. So, a school that treats chronic absenteeism as an academic concern, rather than a financial one, is misreading its own risk profile. Now, we should

admit that the research doesn't frame it that way explicitly. But we think the data makes that conclusion unavoidable.

## 7.2 What School Operators Know from the Field

The academic literature on chronic absenteeism focuses almost entirely on student outcomes and funding equity at the District or State level. It does not study the operational experience of running a small school under these conditions. The following observations reflect what practitioners consistently report. And they're offered here as a practitioner's perspective, coming mostly from our extended DreamClass family, not from research findings.

### A practitioner's perspective

To begin with, attendance problems rarely announce themselves. They usually accumulate in patterns that aggregate reporting hides, until the cumulative damage becomes visible. That's typically at a point when intervention is harder and more expensive than it would have been earlier. A school reviewing weekly totals will almost always discover a chronic absenteeism problem later than a school monitoring individual student trajectories.

Furthermore, the schools most financially exposed to ADA risk are often the ones least equipped to monitor it closely. Schools with lean administrative teams have less capacity for the kind of continuous data review that early identification requires. That operational constraint is also not documented in the research. But from what we can see it's widely recognized by anyone who has run a smaller-sized school. And it means the gap between knowing what to do and being able to do it is real. Closing that gap requires systems that reduce the manual burden of attendance monitoring, rather than adding to it.

Finally, the cost of early visibility is consistently lower than the cost of late discovery. That's true even if only considering the extra time it takes. So, schools we work with that build attendance monitoring into their weekly administrative routines report that the habit costs almost nothing once established. The cost of not building it, measured in missed intervention windows and unrecovered ADA funding, is considerably higher.





## 8. Recommendations for School Administrators and Founders

The research seems to be converging on a clear set of practical steps. School administrators and founders who take these steps are better positioned to protect revenue under ADA funding models. And to support the students whose absences put that revenue at risk. By that token, we should at least take a quick look at them.

So, these recommendations apply regardless of whether your school operates under a State ADA funding model or relies on tuition-based revenue. The operational logic is the same. Chronic absenteeism is a leading indicator of financial and academic risk. And addressing it early costs far less than managing the consequences later.

### 8.1 Six Operational Steps for Immediate Implementation

1. **Audit your current attendance data practices.** Determine whether you're collecting individual-level absence data that allows you to identify students on a chronic absenteeism trajectory before they cross the 10% threshold. Meaning, if you're reviewing only aggregate weekly totals, your visibility is insufficient.
2. **Set defined intervention thresholds.** Establish protocols for outreach when a student reaches 5%, 8%, and 10% of days missed. Each threshold should trigger a specific action like automated parent notification, not just a note in a file.
3. **Automate parent notifications for unexcused absences.** Manual phone-call systems are too slow and too dependent on staff bandwidth. An automated notification sent on the day of an unexcused absence fundamentally changes the family communication loop.
4. **Review attendance data weekly, not monthly or quarterly.** ADA shortfalls accumulate in real time. Weekly review gives you time to intervene before a trend becomes a funding gap.
5. **Disaggregate attendance data by classroom and teacher.** Patterns that don't appear in school-wide averages often become visible at the class level. A classroom with consistently lower attendance may point to engagement, scheduling, or relational factors that a school-wide average masks.
6. **Track the financial exposure from your current ADA rate.** Know, in dollar terms, what a one percentage point drop in your ADA rate costs your school. That figure should inform how you prioritize attendance management as an operational investment. That's probably the easiest way to work your priorities by impact.

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