

Fiscal Estimate Narratives

DPI 8/6/2019

LRB Number	19-1259/1	Introduction Number	SB-327	Estimate Type	Original
Description the school district revenue limit adjustment for declining enrollment and the prior year base revenue hold harmless adjustment					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, a school district's revenue limit is calculated using its base revenues (prior year general aids and controlled property taxes). The base revenue is divided by the prior year's three-year rolling average revenue limit membership to determine a base per-member revenue amount for the present year. The per member revenue amount is multiplied by the current year's three year average revenue limit membership to determine base revenues for the present year.

There are several adjustments to the revenue limit that have the effect of increasing a district's total revenue limit. This includes an adjustment for a school district with declining enrollment, which is measured by comparing a district's current three year rolling average membership with its prior year revenue limit membership. If a school district's enrollment declines, its revenue limit is increased in the year of the decline by the amount of additional revenue that would have been allowed had there been no decline in enrollment. This is referred to as the declining enrollment adjustment.

Additionally, if a district's base revenues, prior to any other adjustments (i.e., declining enrollment adjustment, referenda, transfer of service, etc.), is less than its prior year base, the district's revenue limit is further adjusted to make up that difference. This adjustment is referred to as the revenue base hold harmless adjustment.

Both the declining enrollment and the base hold harmless adjustments are non-recurring, meaning that the amounts of those adjustments are removed from the district's base revenues as part of the subsequent year's revenue limit calculation. They are calculated again for the following year's revenue limit, if the appropriate criteria are met.

This bill modifies the revenue limit adjustment for declining enrollment in two ways.

First, a decline in enrollment is measured by comparing the three-year rolling average (3YRA) of pupil enrollment ending with the current school year against the 3YRA of pupil enrollment for a static time period, specifically, the 2016-17, 2017-18, and 2018-19 school years. This would first be effective for the 2019-20 school year. Under this bill, that same three-year average amount would be the benchmark against which the 3YRA pupil enrollment for future school years (i.e., beyond 2019-20) would be measured, for purposes of determining the allowable declining enrollment adjustment. The maximum decline allowed under the bill, however, is 10 percent; that is, if the difference between the current year's 3YRA and the benchmark 3YRA is greater than 10 percent, the department would have to use a 10 percent decline to calculate the adjustment.

Second, if a school district's enrollment declines, the school district receives an adjustment to its revenue limit equal to the allowable revenues that 90 percent of the decline in enrollment would have generated. Under the 10 percent decline limitation under the bill, as described above, the resulting declining enrollment adjustment would be equal to 90 percent of the 10 percent decline in enrollment.

The bill also terminates the current law base revenue hold harmless adjustment beginning in the 2019-20 school year and each school year thereafter.

The impact of the change to the declining enrollment adjustment would vary by school district, depending on each individual district's factors. Whether or not a district would benefit from the proposed declining enrollment adjustment, as compared to current law, would depend on the degree of change in enrollment from year to year.

Some districts with continual declining enrollment also have no other revenue limit adjustments (i.e., no adjustments related to referenda, transfer of service, etc.). For these districts, the base hold harmless adjustment amount is equal to the declining enrollment adjustment amount that is calculated each year as part of the district's revenue limit calculation. Under this bill, the base hold harmless adjustment would no longer apply. That base hold harmless adjustment may (or may not) be offset by a larger declining enrollment adjustment (depending on the degree of decline in enrollment). However, the immediate elimination of the base hold harmless adjustment, combined with the new calculation for declining enrollment adjustment, would appear to reduce a school district's allowable revenue limit at least in the first year of implementation, as compared to current law (by the amount of the base hold harmless adjustment).

LOCAL FISCAL IMPACT

Revenue limit membership is a three year rolling average, thus, projecting the impact of the proposed changes in this bill in future years would require making assumptions about changes in revenue limit membership for each school district in future years. Future changes in revenue limit cannot be projected with a great degree of accuracy, as many factors impact each district's membership figure – local population patterns that impact a district's resident, school-age population (birth rates, in- and out-migration), as well as the ability of families to enroll their children in private schools.

While the bill can be said to impact school district revenue limits, the direction and degree of those impacts cannot be projected with reasonable accuracy.

Long-Range Fiscal Implications