Romaine Quinn

STATE REPRESENTATIVE • 75th ASSEMBLY DISTRICT

September 19, 2019

Chairman Thiesfeldt and members of the Committee:

Thank you for allowing me to testify on Assembly Bill 368 (Senate Bill 327). This bill originated as one of the recommendations from last year's Blue Ribbon Commission on School Funding. As members of the Commission, Sen. Marklein and I traveled around the state listening to teachers, administrators, and business leaders discuss the challenges with Wisconsin's school funding system.

One of the biggest themes we heard was issues with declining enrollment: 61% of our school districts faced declining enrollment last year. These districts suffer a loss of funding while fixed costs remain the same, creating increased financial pressure when every dollar counts. Our bill aims to provide a set base to these districts by modifying how declining enrollment adjustments to revenue limits are calculated.

Currently, revenue limits are calculated on a three-year rolling average of pupil enrollment and there are two adjustments for declining enrollment. Under the first type of adjustment, if the current three-year rolling average of pupil enrollment is less than the previous three-year rolling average, the district receives a one-time adjustment equal to 100% of what the enrollment decline would have generated in their revenue limit authority. The other type of adjustment for severe declining enrollment districts is the prior year base revenue hold harmless. Under this, if the revenue limit for the current school year is less than the base revenue from the previous school year, the district's initial revenue limit is set equal to the prior year's base revenue.

Our bill modifies the current way declining enrollment adjustments to revenue limits are calculated and deletes the current prior year base revenue hold harmless adjustment. Under this bill, the revenue limit adjustment for declining enrollment sets the benchmark for comparison for the decline to the three-year rolling average from the 2018-19 school year. If a district's three-year rolling average is less than the benchmark, the school district receives a revenue limit adjustment equal to the allowable revenues that 90 percent of the decline in enrollment would have generated. However, there is a limit on this adjustment of a maximum 10 percent decline in enrollment.

Assembly Bill 368 is meant to account for long-term declines in enrollment which many districts in Wisconsin are facing. It is very applicable to our rural, geographically large districts, where every dollar counts in keeping the school running. This new calculation will ensure that the districts have more ongoing revenue limit authority even though they may lose a few students each year but still have the same costs.

Thank you again for hearing AB 368.

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ATTACHMENT 1

Scenario 1

One Percent Enrollment Decline

Current Law

	Base Year	Year 1	Year 2	Year 3
Three-Year Enrollment	1,000	990	990	990
Base Revenue	$10,000,000	$9,900,000	$9,900,000	$9,900,000
Base Revenue Per Pupil	$10,000	$10,000	$10,000	$10,000
Nonrecurring Declining Enrollment Adjustment		$100,000	$0	$0
Base Year Adjustment		$100,000	$0	$0
Total Revenue Limit		$10,100,000	$9,900,000	$9,900,000

Bill Draft

	Base Year	Year 1	Year 2	Year 3
Three-Year Enrollment	1,000	990	990	990
Base Revenue	$10,000,000	$9,900,000	$9,900,000	$9,900,000
Base Revenue Per Pupil	$10,000	$10,000	$10,000	$10,000
Nonrecurring Declining Enrollment Adjustment		$90,000	$90,000	$90,000
Total Revenue Limit		$9,990,000	$9,990,000	$9,990,000
Change to Current Law		-$110,000	$90,000	$90,000

ATTACHMENT 2

Scenario 2

Five Percent Enrollment Decline

Current Law

	Base Year	Year 1	Year 2	Year 3
Three-Year Enrollment	1,000	950	950	950
Base Revenue	$10,000,000	$9,500,000	$9,500,000	$9,500,000
Base Revenue Per Pupil	$10,000	$10,000	$10,000	$10,000
Nonrecurring Declining Enrollment Adjustment		$500,000	$0	$0
Base Year Adjustment		$500,000	$0	$0
Total Revenue Limit		$10,500,000	$9,500,000	$9,500,000

Bill Draft

	Base Year	Year 1	Year 2	Year 3
Three-Year Enrollment	1,000	950	950	950
Base Revenue	$10,000,000	$9,500,000	$9,500,000	$9,500,000
Base Revenue Per Pupil	$10,000	$10,000	$10,000	$10,000
Nonrecurring Declining Enrollment Adjustment		$450,000	$450,000	$450,000
Total Revenue Limit		$9,950,000	$9,950,000	$9,950,000
Change to Current Law		-$550,000	$450,000	$450,000

ATTACHMENT 3

Scenario 3

15 Percent Enrollment Decline

Current Law

	Base Year	Year 1	Year 2	Year 3
Three-Year Enrollment	1,000	850	850	850
Base Revenue	$10,000,000	$8,500,000	$8,500,000	$8,500,000
Base Revenue Per Pupil	$10,000	$10,000	$10,000	$10,000
Nonrecurring Declining Enrollment Adjustment		$1,500,000	$0	$0
Base Year Adjustment		$1,500,000	$0	$0
Total Revenue Limit		$11,500,000	$8,500,000	$8,500,000

Bill Draft

	Base Year	Year 1	Year 2	Year 3
Three-Year Enrollment	1,000	850	850	850
Base Revenue	$10,000,000	$8,500,000	$8,500,000	$8,500,000
Base Revenue Per Pupil	$10,000	$10,000	$10,000	$10,000
Nonrecurring Declining Enrollment Adjustment		$900,000	$900,000	$900,000
Total Revenue Limit		$9,400,000	$9,400,000	$9,400,000
Change to Current Law		-$2,100,000	$900,000	$900,000

HOWARD MARKLEIN
STATE SENATOR • 17TH SENATE DISTRICT

September 19, 2019
Assembly Committee on Education
Testimony on Assembly Bill 368

Good morning!

Thank you Chair Thiesfeldt and committee members for hearing Assembly Bill 368 (AB 368), which makes changes to the school district revenue limit adjustment for declining enrollment.

AB 368 was drafted from one of the recommendations of the Blue Ribbon Commission on School Funding that released its final report earlier this year. Representative Quinn and I served on the Blue Ribbon Commission, along with Representative Pope. Representative Kitchens, vice-chair of this committee, was the co-chair of the Blue Ribbon Commission.

The single biggest variable in determining the size of a school district's budget is pupil enrollment. For a district with declining enrollment, under revenue limits the district eventually loses all of the revenue associated with the reduced number of pupils. However, their fixed costs may not have declined, because it may need the same number of teachers, classrooms, etc. These overhead costs do not change for small declines in enrollment. This bill will help rural schools, in particular, better manage this issue.

Under current law, revenue limits are calculated using a three-year rolling average of pupil enrollment. AB 368 would modify the current declining enrollment adjustment to, instead, account for long-term enrollment declines. The bill sets the 2018-19 three-year rolling average as the base number for all subsequent years in calculating a declining enrollment adjustment.

If the current year average is less than the 2018-19 average, a district would receive an adjustment equal to what 90 percent of the decline would have generated. For districts with a loss of more than 10 percent, the declining enrollment adjustment would be calculated as if the enrollment decline had equaled 10 percent.

Current law also provides that if a districts initial revenue limit for the current school year, after consideration of the per pupil adjustment and low revenue adjustment, is less than the district's base revenue from the previous school year, the district's initial revenue limit is set equal to the prior year's base revenue. AB 368 eliminates this adjustment starting with the 2019-20 school year.

The changes proposed in AB 368 would be less generous in the first year after a decline, but provide more revenue limit authority on an ongoing basis beginning in year two after a decline.

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Rep. Quinn and I will be drafting an amendment to this bill and the senate companion. The amendment will change the base year in the bill from 2018-19 to 2019-20.

Thank you again for hearing AB 368, and your timely action on the bill.

School Administrators Alliance

Representing the Interests of Wisconsin School Children

TO:	Assembly Committee on Education
FROM:	John Forester, Executive Director
DATE:	September 19, 2019
RE:	AB 368 – Declining Enrollment Relief

The School Administrators Alliance (SAA) is testifying for information only on Assembly Bill 368, relating to the school district revenue limit adjustment for declining enrollment and the prior year base revenue hold harmless adjustment.

At the public hearings conducted by the Blue Ribbon Commission on School Funding, I was one of many speakers who testified about the destructive impact of declining enrollment on Wisconsin school districts. Wisconsin's percentage of all school districts experiencing declining enrollment has hovered around the 60 percent mark for more than a decade. This compares to just 29.8 percent of districts that were in declining enrollment in 1997-98. Districts in declining enrollment, of course, lose general aid and revenue limit authority on students lost. Because of the lower enrollment, they also look wealthier in the equalization aid formula and will receive less equalization aid in the future. Declining enrollment districts have great difficulty in prudently cutting expenditures as fast as they are losing revenues.

The state provides declining enrollment relief through the three-year rolling average for student enrollment and the 100 percent revenue cap adjustment in the first year of an enrollment decline. For years, the SAA supported the recommendation of the 2006 Legislative Council Special Committee on Review of the School Aid Formula, which provided that, in addition to the nonrecurring 100 percent adjustment in the first year of the decline, the district would receive an adjustment equal to 75 percent of the first-year adjustment in the 2nd year and a 50 percent adjustment in the third year. Many SAA members have also advocated for a 5-year rolling average for declining enrollment districts. Whatever the mechanism, the SAA supports the concept of additional, effective declining enrollment relief.

I have been lobbying on behalf of Wisconsin public school administrators for almost 18 years, and for my entire tenure with the SAA I have advocated for additional relief for declining enrollment districts. For that reason, I want to thank the authors of this bill, Representative Quinn and Senator Marklein, for bringing this bill forward.

In the past few days, I have talked with quite a number of school superintendents and business managers regarding this bill. And, I have to admit, their thoughts about the bill are all over the map. Some strongly believe that the bill will positively impact their districts. Others, on the other hand, have raised several questions/concerns about the bill including:

- The impact on their districts of the loss of the base revenue hold harmless.

- They note that the future impact of this proposal on their districts would be largely dependent on the actions of future legislatures.
- Still others point to the 10% enrollment decline limitation under the bill as a concern. They note that, in the past decade, quite a number of districts have lost 10% or more of their enrollment. They also note current demographic trends as part of their concern.
- More generally, some note that our school finance system is already one of the most complicated in the nation. In the past 10-15 years when we have made minor changes in our system, it has not been unusual for there to be some "surprises" or unforeseen consequences.
- Finally, I think all SAA members would greatly appreciate some more detailed analysis of the proposal.

Mr. Chairman, I want to again thank the authors for bringing this bill forward. I also want to make a pledge. If the authors or committee members wish to have more discussion of AB 368 and how we can most effectively provide additional declining enrollment relief to districts, I am all in. I would be happy to bring expertise from the field to that table as well.

Thank you for your consideration of our views. If you should have any questions on our thoughts on AB 368, please call me at 608-242-1370.

WISCONSIN DEPARTMENT OF PUBLIC INSTRUCTION

Carolyn Stanford Taylor, State Superintendent

Assembly Education Committee
September 19, 2019

Statement for Information on Assembly Bill 368

Background

School district revenue limits have been in place since the 1993-94 school year. A district's revenue limit controls the total amount of revenue a district may raise for general school operations from combined state general aid and local property taxes. State categorical aids federal grants, and other non-property tax revenue generated by a school district are not subject the revenue limit.

In order to provide context for the changes proposed in AB 368, it is important to note the basic revenue limit calculation. Every year, for each school district:

- The district's "base revenues" (comprised of prior year general aids and controlled property taxes) is divided by the district's three-year rolling average (3YRA) revenue limit membership from the prior year, to determine a "base per-member revenue" amount for the current year.

- If provided under law, each district receives a "per pupil adjustment" – a uniform, per-member adjustment to its base per-member revenue. For 2019-20, each district will receive an increase of $175 per member, and for 2020-21, the adjustment will be $179 per member.

- This base per-member revenue amount is multiplied by the district's current year 3YRA revenue limit membership to determine base revenues for the current year.

- Current law provides for different types of adjustments (also referred to as "exemptions") to a school district's revenue limit amount, all of which are based on specific circumstances that are laid out in statute. Some examples include: adjustments to reflect voter-approved increases to the revenue limit (referenda exemptions) and adjustments to address cost or revenue changes that are not under the control of the district such as costs related to a transfer of service from another governmental unit.

This bill, AB 368, impacts two current law adjustments to the revenue limit – the declining enrollment exemption and the base hold-harmless exemption.

Under current law, the **adjustment for declining enrollment** is determined by comparing the district's 3YRA revenue limit membership from the prior year to that of the current year. If the district's 3YRA membership shows a decline, the district's revenue limit for the current year is increased by an amount equal to 100 percent of the revenue that would have been generated had there been no decline in enrollment. The declining enrollment adjustment does not build the district's base revenue; rather, it is removed from the district's base revenues as part of the subsequent year's calculation. The declining enrollment adjustment is determined anew each year.

Additionally, current law provides a **revenue base hold-harmless adjustment** for eligible districts. After application of the allowable per-member adjustment, and prior to the application of any other adjustments (i.e., declining enrollment adjustment, referenda, transfer of service, etc.), if the district's total allowable revenue is less than its base revenue (from prior year), the district's revenue limit is adjusted to make up that difference. As with the declining enrollment adjustment, the base hold-harmless adjustment is non-base building. The amount generated under this adjustment is removed from the district's base revenue in the following year, and eligibility is determined each year.

There is an interaction between the uniform, per-member adjustment (when provided) and the base hold-harmless adjustment. For districts with declining enrollment, the increase in revenue that is generated by the per-member adjustment will reduce the amount that is generated under the base hold-harmless adjustment possibly to zero. For districts that would still generate a base hold-harmless adjustment (under current law) even with per-member increases, the bill would result in the loss of that base hold-harmless adjustment, which would represent a real decrease in the district's revenue authority for general operations.

AB 368 Provisions

This bill modifies the revenue limit adjustment for declining enrollment and terminates the current law base revenue hold-harmless adjustment, beginning in the 2019-20 school year.

This bill modifies the revenue limit adjustment for declining enrollment as follows:

1. First, a district's decline in enrollment would be measured by comparing the current year's 3YRA revenue limit membership against the 3YRA for a static time period, specifically, the 2016-17, 2017-18, and 2018-19 school years (i.e., the 2018-19 3YRA membership). This would first be effective for the 2019-20 school year (*this year*).

2. Second, if a school district's enrollment indicates a decline, the school district would receive an adjustment to its revenue limit equal to the allowable revenues that 90 percent of the decline in enrollment would have generated (as compared to 100 percent of the decline, under current law).

3. Third, the maximum revenue limit membership decline allowed under the bill 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.

Under the bill, even if a district's enrollment declines to a point that is a decrease of more than a 10 percent compared to the benchmark year, the most that the district would receive in the form of a declining enrollment adjustment would be 90 percent of the revenue that would have been generated by a decrease of 10 percent.

This bill also terminates the current law base revenue hold-harmless adjustment, beginning in the 2019-20 school year (*this year*).

Analysis

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 direction and magnitude of the change in the district's enrollment from year to year.

Under the bill, for the first year of implementation (2019-20 school year), the proposed declining enrollment adjustment calculation would yield the same FTE membership decrease as under current law (FY20 3YRA compared to FY19 3YRA), except that for districts with a decline in enrollment that is greater than 10 percent, the decrease would be capped at 10 percent. However, the bill would impact a district's total revenue authority in two ways:

- The resulting declining enrollment adjustment would be less than under current law, because the bill changes the adjustment to an amount equal to 90 percent of what the decline in enrollment would have generated (compared to 100 percent under current law).
- Additionally, the district would no longer be eligible for a base hold-harmless adjustment. The $175/member adjustment that all school districts receive in 2019-20 will generate additional revenue authority, which will have the impact of reducing, at least partially, the revenue authority generated by the base hold-harmless adjustment itself. However, depending on the magnitude of a district's decline in enrollment, the per-member adjustment may not be sufficient to raise the district's revenue authority to its prior year base level. The elimination of the base hold-harmless adjustment means that districts in this situation will have less total revenue authority under the bill, as compared to current law, at least in the first year of implementation.

Some districts with continual declining enrollment also have no other base-building revenue limit adjustments (i.e., no recurring referenda). For these districts, in an environment of zero-dollar revenue limit per-member adjustments, the base hold-harmless adjustment provides a safety net, ensuring that district operations can continue at base levels. While continued declines in enrollment may eventually result in staffing adjustments, districts are not necessarily able to make those adjustments each year that a decline occurs. For instance, losing 20 students across kindergarten to grade 12 would not allow for the same staffing adjustments as if the 20 student loss was concentrated in one grade level. If the district's revenues are now lower than the prior year, it still has to provide the same level of programming and services and the district is left with a few options to get through that year.

This bill does not address future per-member increases to the revenue limit. If AB 368 were to become law, and there are future years with no per-member adjustment, districts may be faced with decreasing revenue bases. A district with steady declining enrollment may, over time, require fewer resources for operations. All districts however, are required to provide educational programming for their resident students, to transport students to and from school, and to maintain facilities. All districts have fixed costs to operate. With no base hold-harmless adjustment, a district with continual declining enrollment may face unsustainable erosion to their base revenues for operations. As a result, the department believes the bill would be improved by retaining the base hold-harmless adjustment.

Projecting the impact of the proposed changes in this bill moving forward would require making assumptions about changes in revenue limit membership for each school district for future years. Future changes in revenue limit cannot be projected with a great degree of accuracy, as many factors impact each district's revenue limit membership.

The department did run simulations of the impact of this bill for districts facing various enrollment trends, under two scenarios: 1) zero per-member revenue limit adjustments in the years *after* 2020-21 (FY21); and 2) ongoing per-member revenue limit adjustments of $175 annually. The observed impacts from this simulation are summarized in the table below.

Total Revenue Authority, Bill Compared to Current Law (FY20 - FY25)

Enrollment Trend	**No Per Pupil Adjustment in Any Years**	**With Per Pupil Adjustment [FY20=$175, FY21=$179, FY22 & after=$175]**
Steady Decline	Lower in FY20/FY21 but higher in FY22 and beyond	Lower in FY20 but higher in FY21 and beyond
Leveling Out	Lower in FY20/FY21 but higher in FY22 and beyond	Lower in FY20 but higher in FY21 and beyond
Accelerating	Lower in FY20/FY21, higher in FY22/FY23, ***then lower thereafter***	Lower in FY20, higher in FY21 - FY23, ***then lower thereafter***
Rebounding	Lower in FY20/FY21 but higher in FY22 and beyond	Lower in FY20 but higher in FY21 and beyond
Slower Decline	Lower in FY20/FY21 but higher in FY22 and beyond	Lower in FY20 but higher in FY21 and beyond
Faster Decline	Lower in FY20/FY21 but higher in FY22 and beyond	Lower in FY20 but higher in FY21 and beyond
Rise then fall	No difference first several years, ***but lower beginning in FY24***	No difference first year, ***but lower beginning in FY22***

The department observes that the proposed changes under AB 368 would not have a uniform impact on school districts throughout the state. Rather, the changes proposed in this bill would have differing impacts on the total controlled revenue authority for school districts, depending on factors that are not under the control of the school districts – changes in enrollment (revenue limit membership), and the amount of the per-member revenue limit adjustment provided by the state.