



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #626

Declining Enrollment Provisions (DPI -- General School Aids and Revenue Limits)

Bill Agency

[LFB 2007-09 Budget Summary: Page 462, #3 and 4]

CURRENT LAW

Under revenue limits, the annual increase in a school district's per pupil revenue derived from general school aids, computer aid, and property taxes is restricted. Actual general aids, computer aid, and property tax revenues received in the prior school year are used to establish the base year amount in order to compute the district's allowable revenue for the current school year. A per pupil revenue limit increase, which is adjusted annually for inflation, is added to the base revenue per pupil for the current school year. In 2006-07, this per pupil increase is \$256.93. There are several adjustments that are made to the standard revenue limit calculation, such as the declining enrollment adjustment and the transfer of service adjustment. These adjustments generally increase a district's limit, providing the district with more revenue authority within the calculated limit. A school district can also exceed its revenue limit by receiving voter approval at a referendum.

A three-year rolling average of a school district's pupil enrollment is used to determine the district's allowable revenue under the limit. Specifically, the number of pupils is based on the average of a school district's membership count taken on the third Friday in September for the current and two preceding school years. For example, for 2006-07 revenue limits, the average of the 2003, 2004, and 2005 September memberships was used to calculate the 2005-06 base year revenue per pupil. Then, the average of the 2004, 2005, and 2006 September memberships was used to determine the 2006-07 current year revenue per pupil. School districts can also count 40% of the full-time equivalent (FTE) summer school enrollment in classes taught by licensed teachers in the membership counts in each year of the three-year average.

Under the declining enrollment adjustment, if a school district's current year three-year rolling average pupil enrollment is less than the prior year three-year rolling average, the district receives a one-year nonrecurring adjustment to its revenue limit in a dollar amount equal to 75% of what the decline in the three-year rolling average memberships would have generated.

GOVERNOR

Increase the Current Law Adjustment. Increase the declining enrollment adjustment from 75% to 100% of the allowable revenues that the decline would have generated, beginning in the 2007-08 school year.

Prior Year Base Revenue Floor. Provide that a school district's initial revenue limit for the current year would, in certain cases, be set equal to its prior year's base revenue, beginning in the 2007-08 school year. Specify that this base revenue floor would apply if a school district's initial revenue limit in the current year, after consideration of the per pupil adjustment and low-revenue ceiling, but prior to any other adjustments, is less than the district's base revenue from the prior year.

DISCUSSION POINTS

1. Revenue limits were first imposed on school districts in 1993-94. The three-year rolling average of pupil enrollment has been used in the revenue limit calculation since that year. Using three-year rolling averages to calculate revenue limits, rather than a shorter time frame such as a one-year change, helps to lessen the impact on school district budgeting that a relatively large annual change in enrollment could cause.

2. The current law declining enrollment adjustment was first effective for revenue limits calculated in 1998-99. The following table shows the number of districts that have been eligible for the declining enrollment adjustment since it was effective, and the total amount generated by the adjustment.

Declining Enrollment Adjustment History

<u>Year</u>	<u>Number of Eligible Districts</u>	<u>Statewide Total Adjustment (millions)</u>
1998-99	165	\$9.4
1999-00	187	14.8
2000-01	197	23.9
2001-02	214	26.7
2002-03	230	29.4
2003-04	249	28.3
2004-05	266	36.2
2005-06	265	42.5
2006-07	245	44.9

3. With the three-year rolling average, a district's ongoing revenues do not reflect the full impact of losing a pupil until the third year after the pupil's departure. The declining enrollment adjustment further gives districts, on a one-time basis, additional revenue authority to cushion the enrollment decline and provide additional time to make programmatic changes to support the operations of the district at its lower enrollment.

4. Officials from several school districts testified at the Committee's public hearings on the budget about the effect of revenue limits and declining enrollment on the operations of their districts. The testimony generally indicated that these districts have difficulty maintaining their ongoing operations under declining enrollment because they are unable to reduce overall expenditures in response to marginal reductions in enrollment. District officials also noted that certain fixed costs and educational offerings must be maintained even if enrollment in the district is declining.

5. The Governor's recommendation to increase the declining enrollment adjustment from 75% to 100% would provide additional revenue limit authority to those districts that already receive an adjustment under current law.

6. Had the Governor's recommendation been in effect in 2006-07, the 245 districts eligible for a declining enrollment adjustment would have received an adjustment totaling \$59.4 million, rather than the \$44.9 million under current law. Under the provisions of the bill, it is estimated that increasing the declining enrollment adjustment from 75% to 100% would provide a total of \$62 million in 2007-08 and \$73 million in 2008-09 statewide in revenue limit authority related to the adjustment. This would represent a change of \$15 million in 2007-08 and \$18 million in 2008-09 compared to current law.

7. If used by school districts, the additional revenue limit authority would be funded by a combination of general school aids, computer aid, and property taxes. Under SB 40, an additional \$79.3 million in 2007-08 and \$156.1 million in 2008-09 in additional general school aids funding would be provided.

8. In January, 2007, the Joint Legislative Council Special Committee on Review of State School Aid Formula expressed consensus to extend the declining enrollment adjustment from one year to three years. During its deliberations, the Special Committee believed that this would target additional resources to give districts more latitude over a longer period of time to address the problems associated with declining enrollment.

9. Under the Special Committee's proposal, in the year of an enrollment decline, a district would receive a nonrecurring adjustment equal to 100% of the allowable revenues that the decline would have generated, similar to the Governor's recommendation. In the year after the enrollment decline, the district would receive a nonrecurring adjustment equal to 75% of the original adjustment. In the second year after the enrollment decline, the district would receive a nonrecurring adjustment equal to 50% of the original adjustment. Under the proposal, districts could receive up to three adjustments relating to enrollment declines in a given year.

10. The 100% adjustment under the bill would provide an estimated \$62 million adjustment in 2007-08 for all declining enrollment districts. Under the Special Committee's proposal, these districts would receive an additional adjustment of \$47 million in 2008-09 and \$31 million in 2009-10 related to the 2007-08 enrollment declines. The 100% adjustment would provide an estimated \$73 million adjustment in 2008-09. Under the Special Committee's proposal, these districts would receive an additional adjustment of \$55 million in 2009-10 and \$36 million in 2010-11 related to the 2008-09 enrollment declines.

11. Some have argued that the current law declining revenue adjustment does not take into account the severity of the decline in a district's enrollment over time. Also, the adjustment is calculated the same for districts with relatively small declines as it is for districts with larger declines, even though districts with larger declines would likely have to react differently to their circumstances than would a district with a smaller decline.

12. For the majority of districts, the per pupil adjustment and the low-revenue ceiling result in an initial current year limit higher than the prior year's base revenue. Some districts, however, are experiencing such a large decrease in enrollment (generally a 3% or greater decline in the three-year averages) that their initial current year limit is less than the prior year's base revenue amount.

13. The Governor's recommendation for the prior year base revenue floor would address the concerns of districts with relatively large declines in enrollment by bringing a district's initial revenue limit in the current year, after consideration of the per pupil adjustment and low-revenue ceiling, but prior to any other adjustments, up to the district's base revenue from the prior year.

14. In 2006-07, 60 districts had an initial 2006-07 revenue limit that was lower than their 2005-06 base revenues. In total, the difference between these districts' 2005-06 base revenues and 2006-07 initial revenue limits was nearly \$2.8 million.

15. Under the provisions of the bill, it is estimated that the prior year base revenue floor would provide an additional \$3.5 to \$4.0 million in revenue limit authority annually for eligible districts. If used by districts, the additional revenue limit authority would be funded by a combination of general school aids, computer aid, and property taxes.

16. Subsequent to the introduction of the budget bill, the Department of Administration submitted an errata relating to the prior year base revenue floor adjustment. As drafted, it is unclear whether the additional revenue limit authority generated by this adjustment would be recurring or nonrecurring. DOA requested that the provision be clarified to state that any additional revenue generated by the adjustment be nonrecurring. Districts would be eligible for the adjustment annually, but each year the adjustment would be based on a comparison of each year's initial revenue limit with the prior year's base.

17. The Committee could also choose to make no change to revenue limits with respect to declining enrollment. It could be argued that the use of three-year averages and the 75%

declining enrollment adjustment already provide some cushion to districts to allow them time to make whatever programmatic changes are necessary to conform with revenue limits. If a district's revenue limit does not allow it to maintain its core functions, the district has the option under current law to propose a referendum. Using this option would ensure that there is local support of the district's decision, before it can spend or tax at higher levels.

18. Further, if some school districts are facing serious operational difficulties, there may be other factors contributing to their financial dilemma, and more drastic measures, such as reorganization or consolidation, may be appropriate.

ALTERNATIVES TO BILL

A. Current Law Adjustment

1. Approve the Governor's recommendation to increase the declining enrollment adjustment from 75% to 100% of the allowable revenues that the decline would have generated, beginning in the 2007-08 school year.

2. Modify the Governor's recommendation to specify that, in addition to the 100% adjustment received by a district in the first year of an enrollment decline: (a) in the year after the decline, a district would receive a nonrecurring adjustment equal to 75% of the first-year adjustment, and (b) in the second year after the decline, a district would receive a nonrecurring adjustment equal to 50% of the first-year adjustment.

3. Delete provision.

B. Prior Year Base Revenue Floor

1. Approve the Governor's recommendation to provide that a school district's initial revenue limit for the current year would, in certain cases, be set equal to its prior year's base revenue, beginning in the 2007-08 school year. Specify that this base revenue floor would apply if a school district's revenue limit in the current year, after consideration of the per pupil adjustment and low-revenue ceiling, but prior to any other adjustments, is less than the district's base revenue from the prior year. Modify the recommendation, as requested by DOA, to make the adjustment nonrecurring.

2. Delete provision.

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