

During public hearings, the Commission heard testimony regarding school districts with declining enrollment.

Under revenue limits, there are two adjustments for districts with declining enrollment. Under the main declining enrollment adjustment, if a district's current year three-year average pupil enrollment is less than the prior year three-year average, the district receives a nonrecurring adjustment in a dollar amount equal to 100% of what the enrollment decline would have generated in revenue limit authority.

The prior year base revenue hold harmless adjustment was created for districts with severe declining enrollment. Under this adjustment, a district's initial revenue limit for the current year is, in certain cases, set equal to its prior year's base revenue. This hold harmless applies if a district's initial revenue limit in the current year, after consideration of the per pupil adjustment and low revenue adjustment, but prior to any other adjustments, is less than the district's base revenue from the prior year. For some districts with relatively large declines in enrollment, the initial revenue limit for the current year can still be less than the district's prior year base revenue, even with a positive per pupil adjustment and a meaningful low revenue adjustment. With no per pupil or low revenue adjustment, this adjustment is mathematically equal to the main declining enrollment adjustment.

Numerous options exist to address declining enrollment. One option is to change the revenue limit enrollment from a three-year to a five-year rolling average. A five-year rolling average would generally lessen the impact on school district budgeting of relatively large annual changes in enrollment and allow school districts more time to plan and react to changing enrollments. Because of the two declining enrollment adjustments in the current calculation, however, some districts with declining enrollment as measured by the three-year rolling average would gain revenue limit authority and some would lose revenue limit authority compared to current law. Similarly, some districts with increasing enrollment would gain revenue limit authority while others would lose revenue limit authority compared to current law.

Other options could be developed to address the question of long-term enrollment decline. One alternative would delete the prior year base hold harmless adjustment and modify the main declining enrollment adjustment to calculate the adjustment relative to a base year rather on rolling averages. For example, if the proposal were to begin in 2019-20, the declining enrollment adjustment would use the 2018-19 three-year rolling average as the base number for all subsequent years. Each year's three-year average would be compared to the base year average. If the current year average were less than the 2018-19 average, a district could receive an adjustment equal to a percentage (such as 90%) of what the decline would have generated. This would require some level of budget reduction to address the decline, but allow districts to largely maintain base

resources to address fixed costs. If a district's enrollment loses more than a certain percentage (such as 10%) of the 2018-19 enrollment average, the declining enrollment adjustment would be limited to what that threshold enrollment decline would have generated. This would continue provide an allowance for fixed costs while requiring the district to address changes in cost structure due to more substantial enrollment declines.

ALTERNATIVES

1. Recommend that revenue limits be calculated using a five-year rolling average of pupil enrollments.

2. Recommend that the current prior year base revenue hold harmless be eliminated and the current declining enrollment adjustment be modified to instead account for long-term enrollment declines. Under this alternative, the 2018-19 three-year rolling average would serve as the base number for all subsequent years in calculating a declining enrollment adjustment. Each year's three-year average would be compared to the 2018-19 average. If the current year average was less than the 2018-19 average, a district would receive an adjustment equal to what 90% of the decline would have generated. If a district loses more than 10% of the 2018-19 enrollment, the declining enrollment adjustment would be calculated as if the enrollment decline had equaled 10%.