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Revenue Limit Enrollment Average
(DPI -- General School Aids and Revenue Limits)

[LFB 2005-07 Budget Summary: Page 398, #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 allowable revenue increase 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 2004-05, this per pupil increase is $241.01. There are several adjustments that are made to the standard revenue limit calculation, such as the declining enrollment adjustment, carryover of unused revenue authority, 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 allowable revenue increase 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 2004-05 revenue limits, the average of the 2001, 2002, and 2003 September memberships was used to calculate the 2003-04 base year revenues per pupil. Then, the average of the 2002, 2003, and 2004 September memberships was used to determine the allowable revenue increase in 2004-05. 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

Provide that a school district's revenue limit would be the greater of: (a) the revenue limit calculated for the district using the current law three-year rolling average of pupil enrollment; or (b) the revenue limit calculated for the district using a new five-year rolling average of pupil enrollment. Specify that this proposed option for a five-year rolling average would begin with revenue limits for the 2006-07 school 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. The declining enrollment adjustment was first effective for revenue limits calculated in 1998-99.

2. Using three-year rolling averages, rather than a shorter time frame such as a one-year change, to calculate revenue limits helps to lessen the impact on school district budgeting that a relatively large annual change could cause. For the 2004-05 revenue limit calculations, for example, 90% of the districts in the state had between a 3.1% increase to a 4.3% decrease between the prior year and the current year three-year rolling averages. The one year change in the revenue limit enrollment count between 2003 and 2004 for 90% of districts varied more, ranging from a 4.8% increase to a 5.6% decrease.

3. Under AB 100, the revenue limit for a particular school district would be the greater of the limits calculated using a three-year or a five-year rolling average. A five-year rolling average would generally further lessen the impact on school district budgeting of relatively large annual changes in enrollment and allow school districts even more time to plan and react to changing enrollments. Using the revenue limit enrollment counts that applied in the given years, 90% of the districts in the state had between a 3.0% increase to a 3.8% decrease between the prior year and the current year five-year rolling averages.

4. The Governor's Task Force on Educational Excellence recommended providing additional relief to declining enrollment school districts. The Task Force's report noted that declining enrollment is a serious problem facing many districts across the state, making it difficult for those districts to maintain core educational programs and staff. The report also asserted that the current three-year rolling average does not accurately reflect the marginal cost associated with losing a student, and that, while the current 75% declining enrollment adjustment provides some temporary assistance each year, it is arguably not enough.

5. Assuming the other changes to current law revenue limits proposed under AB 100, an estimated 255 school districts would have a higher revenue limit in 2006-07 using a five-year

rolling average as compared to a three-year rolling average. If all districts fully utilized the additional authority generated by the five-year average as compared to the three-year average, they would collectively raise additional estimated revenue of $24.4 million in 2006-07.

6. 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 AB 100, an additional $415 million in 2006-07 in general school aids funding would be provided.

7. While giving school districts the choice between a three-year or a five-year rolling average for the revenue limit calculation would generally provide additional revenue limit authority to those districts now eligible for the 75% declining enrollment adjustment, it would not necessarily help all declining enrollment districts.

8. Had the bill provision been in effect for the calculation of revenue limits in 2004-05, 262 school districts would have had a higher revenue limit using the five-year average, 162 would have had a higher limit with the three-year average, and two districts would have had the same limit under either calculation. Of the 262 districts that would have had a higher limit using the five-year average, 210 were eligible for the current law declining enrollment adjustment, while 52 were not. Of the 162 districts that would have had a higher limit using the three-year average, 55 were eligible for the current law declining enrollment adjustment, while 107 were not.

9. Although some declining enrollment districts would not benefit from having the option of using a five-year average for their revenue limit calculation, no district's revenue limit would be reduced compared to current law.

10. Arguably, if the current three-year rolling average does not accurately reflect the marginal cost associated with losing a student for districts with declining enrollment, then it might not reflect the marginal cost associated with gaining a student for districts with increasing enrollment. In other words, the marginal cost difference of adding or subtracting one pupil may not be the equivalent of the average per pupil revenue that is gained or lost under revenue limits.

11. To address this, the Committee could choose to specify that revenue limits for all districts be calculated using a five-year rolling average. Under this alternative, all districts would be treated similarly, and the changes that both increasing and declining enrollment districts would need to make within revenue limits would be smoothed out over a longer period of time. The estimated $24.4 million revenue limit increase for the 255 districts that would benefit from a five-year average in 2006-07 would be partially offset by an estimated $14.3 million revenue limit reduction for the 170 districts that would be advantaged by the three-year average. In total, this alternative would increase revenue limit authority statewide by an estimated $10.1 million in 2006-07.

12. Rather than alter the revenue limit membership counts, the Committee could also choose to modify the current law declining enrollment adjustment to provide additional revenue limit authority to declining enrollment districts. One option would be to restructure the declining enrollment adjustment to be a three-year adjustment. The current law 75% adjustment in the year

that enrollment declines would be maintained. Under this option, in the year after the enrollment decline, the district would receive an adjustment equal to 50% of the allowable revenues that the initial enrollment decline would have generated. In the second year, the district would receive an adjustment equal to 25% of the allowable revenues the initial enrollment decline would have generated. After the second year after the enrollment decline, no further adjustment would be provided for the initial decline.

13. This option would provide districts with a longer time frame in which to adjust their operations to address any enrollment decline. Based on the 2004-05 enrollment declines under the current adjustment, the 50% adjustment would provide an estimated $25.3 million in additional revenue limit authority statewide for eligible districts in 2005-06. The 25% adjustment would provide an estimated $13.1 million in additional revenue limit authority statewide for eligible districts in 2006-07.

14. This three-year declining enrollment adjustment would be similar to the adjustment adopted by the Legislature in the 1997-99 budget bill. The Governor, however, used a partial veto to delete the second and third years of the adjustment.

15. It could be 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. Because the adjustment is nonrecurring, it does not provide a permanent increase in base revenues for districts experiencing rapid enrollment decline. 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.

16. One alternative to address the concerns of districts with relatively large declines in enrollment is to specify that if a 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, the district's initial revenue limit would be set equal to the prior year's base revenue.

17. 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 relatively 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. In 2004-05, 47 districts had an initial 2004-05 revenue limit that was lower than their 2003-04 base revenue. In total, the difference between these districts' 2003-04 base revenue and 2004-05 initial revenue limit was nearly $3.0 million.

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

ALTERNATIVES

A. Modify Number of Years in Enrollment Average

1. Approve the Governor's recommendation to provide that, beginning with the 2006-07 school year, a school district's revenue limit would be the greater of limit calculated using either a three-year or a five-year rolling average of pupil enrollment.

2. Modify the Governor's recommendation to provide that, beginning in 2005-06, a school district's revenue limit would be calculated using a five-year rolling average of pupil enrollment.

3. Delete the provision.

B. Extend Current One-Year 75% Declining Enrollment Adjustment (75/50/25)

1. Beginning in 2005-06, extend the one-year 75% declining enrollment provision, which applies in the year of an enrollment decline, by specifying that: (a) in the year after an enrollment decline, a school district receives a nonrecurring adjustment equal to 50% of what that enrollment decline would have generated; and (b) in the second year after an enrollment decline, a school district receives a nonrecurring adjustment equal to 25% of what that enrollment decline would have generated. Specify that this provision would apply to enrollment declines that occurred in 2003-04 and 2004-05. Under this provision, for a decline in 2003-04, the school district would receive 25% of what that enrollment decline would have generated in 2005-06; for a decline in 2004-05, the school district would receive 50% of what that enrollment decline would have generated in 2005-06.

2. Maintain current law.

C. Set Initial Limit at Prior Year Base

1. Beginning in 2005-06, provide that, if a 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, the district's initial revenue limit for the current year be set equal to the prior year's base revenue.

2. Maintain current law.

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