



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #499

Revenue Limit and Per Pupil Aid Enrollment for the 2020-21 School Year (DPI -- General School Aids and Revenue Limits)

[LFB 2021-23 Budget Summary: Page 463, #8 and Page 465, #5]

CURRENT LAW

Revenue Limits. Under revenue limits, the amount of revenue a school district can raise from general school aids, property taxes, and exempt property aid is restricted. A district's base revenue in a given year is equal to the restricted revenues received in the prior school year. Base revenue is divided by the average of the district's enrollments in the prior three years to determine its base revenue per pupil. In 2020-21, a \$179 per pupil adjustment is added to each district's base revenue per pupil to determine its current year revenue per pupil. Current year revenue per pupil is then multiplied by the average of the district's enrollments in the current and prior two years to determine the district's initial revenue limit. There are several adjustments that are made to the initial revenue limit, such as the declining enrollment adjustment and the low revenue adjustment. A district can also exceed its revenue limit by receiving voter approval at a referendum.

For revenue limit purposes, a district's enrollment is the sum of its pupil count taken on the third Friday in September plus 40% of its full-time equivalent summer enrollment. A three-year rolling average of these enrollments is used to calculate the limit. For example, for the 2020-21 revenue limit, the average of the 2017, 2018, and 2019 enrollments is used to calculate the 2019-20 base year revenue per pupil. Then, the average of the 2018, 2019, and 2020 enrollments is used to calculate the 2020-21 current year revenue per pupil.

Under the declining enrollment adjustment, if a district's current year three-year rolling average pupil enrollment is less than its prior year three-year rolling average, the district receives a nonrecurring adjustment to its revenue limit in a dollar amount equal to 100% of what the decline in the average enrollments would have generated in revenue limit authority.

Under the prior year base revenue hold harmless adjustment, which is also nonrecurring, 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, the district's initial revenue limit is set equal to its prior year base revenue amount.

Under the low revenue adjustment, if the sum of the base revenue per pupil and the revenue limit per pupil adjustment for a district is below a statutorily-specified amount, a district may increase its revenue to that amount. The low revenue adjustment amount in 2020-21 and each year thereafter is \$10,000 per pupil, with a three-year exception for districts with failed referenda.

Per Pupil Aid. Each school district receives a statutorily-specified, flat per pupil aid payment, outside of revenue limits, from a sum sufficient per pupil aid appropriation. Under current law, each district receives a \$742 per pupil payment in 2020-21 and each year thereafter. A district's current three-year rolling average pupil count under revenue limits is used to calculate the aid payment.

DISCUSSION POINTS

1. There are three features of revenue limits that address declining enrollment: the three-year rolling average, the declining enrollment adjustment, and the prior year base revenue hold harmless adjustment.

2. Under current law, a district with otherwise steady enrollment and a relatively small enrollment decline in one year would receive the declining enrollment adjustment to replace the loss of revenue limit authority in the first year of the decline. This adjustment is nonrecurring, so the district would lose that revenue limit authority in the two years following the enrollment decline as that decline works through the three-year rolling average. If the enrollment decline is relatively large, the district would also receive the prior year base revenue hold harmless adjustment in the first year of the decline, resulting temporarily in an increase in revenue limit authority compared to the authority the district would have had if the decline had not happened. Once the one-year enrollment decline drops out of the three-year rolling averages, the district's revenue limit would be restored to its original amount. The attachment provides hypothetical examples that illustrate the current law effects of a relatively small and large enrollment decline.

3. The examples shown all assume constant enrollment for the hypothetical districts, so as to show, in isolation, the effect of a decline in enrollment. While the short-term enrollment changes work through the revenue limit calculation, district eligibility for other adjustments could change and districts would still be subject to the revenue limit effects of long-term enrollment demographics.

4. Table 1 below shows the current year three-year average enrollment used for the calculation of revenue limits and per pupil aid each year for the last decade.

TABLE 1

Revenue Limit Enrollment Averages

	<u>Enrollment Average</u>	<u>Change to Prior Year</u>	
		<u>Amount</u>	<u>Percent</u>
2011-12	847,515		
2012-13	846,490	-1,025	-0.1%
2013-14	846,148	-342	0.0
2014-15	845,600	-548	-0.1
2015-16	843,944	-1,656	-0.2
2016-17	841,906	-2,038	-0.2
2017-18	839,885	-2,021	-0.2
2018-19	837,642	-2,243	-0.3
2019-20	834,198	-3,444	-0.4
2020-21	822,968	-11,230	-1.3

5. The large drop in the average for 2020-21 was primarily due to the one-year enrollment drop from 2019 to 2020. The revenue limit enrollment count dropped from 830,200 in 2019 to 804,400 in 2020, with the largest reductions occurring in the prekindergarten and kindergarten grades. Information from DPI suggests that nearly 90% of the enrollment decline was due to the pandemic rather than long-term enrollment trends.

6. Based on the three-year rolling averages, 329 districts were eligible for the declining enrollment adjustment in 2020-21, an increase from 249 eligible districts in 2019-20. The 2019-20 eligibility is more consistent with recent eligibility for that adjustment.

7. Given the relatively large, unplanned declines in enrollment, it could be viewed as appropriate to attempt to mitigate what could be a temporary reduction in revenue limit authority and per pupil aid for districts.

8. The current features in revenue limits for declining enrollment could also be viewed as sufficient for addressing the changes in enrollment, which were already in effect for districts for the first year of the enrollment decline. Districts would also have the option to use other fund sources to address any revenue shortfalls. School boards could also propose a referendum for additional revenue limit authority for 2022-23, which would ensure that there is local support of the district's decision to make additional expenditures, before it can spend or tax at higher levels.

9. The budget bill would specify that for calculating a school district's revenue limit for the 2021-22, 2022-23, and 2023-24 school years, the number of pupils enrolled in the district in the 2020-21 school year is the sum of the following: (a) the greater of the number of pupils enrolled in the district's September enrollment count in the 2019-20 school year or in the 2020-21 school year; and (b) the greater of 40% of the district's summer enrollment in the 2019-20 school year or in the 2020-21 school year. These provisions would also apply to the calculation of per pupil aid.

10. The budget bill provision would fill in the two-year revenue limit reduction for districts that would become eligible for the low revenue adjustment (\$10,000 under current law). For districts that would not become eligible for that adjustment, the bill would not fill in the two-year reduction and also reduce the revenue limit authority for those districts on an ongoing basis.

11. The budget bill provision could be modified to treat all districts similarly with respect to filling in the loss of revenue limit authority in 2021-22 and 2022-23 without reducing a district's ongoing revenue limit authority beginning in 2023-24. Under this alternative, in addition to the bill provisions, the declining enrollment adjustment from 2020-21 would be made recurring, rather than nonrecurring, for the calculation of base revenues for the 2021-22 school year.

12. The alternatives at the end of this paper related to the revenue limit enrollment count indicate the estimated amount of revenue limit authority that would be generated under each. In the absence of additional state funding, school boards would have the authority to levy, in total, those amounts. The levy impact could be reduced, in whole or in part, by providing an increase in general school aid or school levy tax credit funding. The fiscal effect of any alternatives involving the levy credit would have to account for the fact that the credit is paid on a delayed basis in the state fiscal year following the property tax year to which the credit applies.

13. The fiscal effects shown for the revenue limit alternatives assume no other changes are made to current law revenue limits. If any changes are made to revenue limits, those fiscal effects may need to be adjusted accordingly.

14. The bill provision could also be applied to the calculation of per pupil aid. The Committee could chose to address both the revenue limit and per pupil aid calculations, only one of the calculations, or neither of them.

15. Per pupil aid is calculated using the same three-year enrollment average as under revenue limits. Because per pupil aid does not have any hold harmless provisions for declining enrollment (other than the smoothing effect of using a three-year average), it would be more straightforward to use the higher of 2019 or 2020 enrollments as the 2020 count used for the calculation of per pupil aid. If this change to enrollment were made for per pupil aid, estimated payments from the appropriation would increase by \$6.7 million in 2021-22 and \$6.6 million in 2022-23 compared to base, as adjusted by prior Committee action to reestimate current law payments from the appropriation.

16. The fiscal effect assumes the current law \$742 per pupil aid payment is maintained in each year of the 2021-23 biennium. If the Committee modifies the current law per pupil aid payment amount, the fiscal effect of the enrollment alternative would need to be adjusted as well. The per pupil aid payment amount is addressed in a separate issue paper.

ALTERNATIVES

A. Revenue Limits

1. Specify that for calculating a school district's revenue limit for the 2021-22, 2022-23, and 2023-24 school years, the number of pupils enrolled in the district in the 2020-21 school year is the sum of the following: (a) the greater of the number of pupils enrolled in the district's September enrollment count in the 2019-20 school year or in the 2020-21 school year; and (b) the greater of 40% of the district's summer enrollment in the 2019-20 school year or in the 2020-21 school year. *[This would generate an estimated \$24.3 million in 2021-22 and \$36.7 million in 2022-23 in statewide revenue limit authority, the levy impact of which can be offset in whole or in part by increased funding for general school aids or the school levy tax credit.]*

2. In addition to Alternative A1, specify that the declining enrollment adjustment from 2020-21 would be recurring for the calculation of base revenues for the 2021-22 school year. *[This would generate an estimated \$135.2 million in 2021-22 and \$134.3 million in 2022-23 in statewide revenue limit authority, the levy impact of which can be offset in whole or in part by increased funding for general school aids or the school levy tax credit.]*

3. Take no action.

B. Per Pupil Aid

1. Provide \$6,675,100 in 2021-22 and \$6,640,200 in 2022-23 and specify that for the calculation of per pupil aid for the 2021-22, 2022-23, and 2023-24 school years, the number of pupils enrolled in the district in the 2020-21 school year is the sum of the following: (a) the greater of the number of pupils enrolled in the district's September enrollment count in the 2019-20 school year or in the 2020-21 school year; and (b) the greater of 40% of the district's summer enrollment in the 2019-20 school year or in the 2020-21 school year.

ALT B1	Change to Base
GPR	\$13,315,300

2. Take no action.

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Attachment

ATTACHMENT

Effects of Declining Enrollment Under Current Law

This attachment presents information on a hypothetical district to illustrate the effect that a small and a large decline in enrollment has on a district's revenue limit under current law. The district started 2020-21 with a base revenue of \$24,000,000 and a prior year three-rolling average of 2,000 pupils, with that number of pupils enrolled in each of the three years used to calculate the average. The district's base revenue would then be \$12,000 per pupil.

Table 2 shows the revenue limit for that hypothetical district for the next three years under two scenarios: (a) if there was no change in enrollment beginning in 2020-21, meaning 2,000 pupils continued to be enrolled in the district each year from 2020-21 through 2023-24; and (b) if there was a 2.5% reduction in enrollment in 2020-21 only, meaning 1,950 pupils were enrolled in 2020-21, but 2,000 pupils were enrolled from 2021-22 through 2023-24. Only the per pupil adjustment and the two declining enrollment adjustments are considered in the examples.

TABLE 2

Current Law Revenue Limit for District With and Without 2.5% Enrollment Decline

	<u>No Enrollment Decline</u>	<u>2.5% Decline in 2020-21</u>	<u>Difference</u>
2020-21	\$24,358,000	\$24,358,000	\$0
2021-22	24,358,000	24,151,000	-207,000
2022-23	24,358,000	24,151,000	-207,000
2023-24	24,358,000	24,358,000	0

With the \$179 per pupil adjustment in 2020-21, if there were no change in enrollment, the district's revenue limit would have increased to \$24,358,000 in that year, and would stay at that amount in each year through 2023-24.

If there were a 2.5% enrollment decline in 2020-21, the district's initial revenue limit would have declined to \$24,151,000. The declining enrollment adjustment would be \$207,000, which is amount of revenue limit authority the 50 pupils would have generated. The district's initial revenue limit would have been higher than its prior year base revenue, so the district would not have been eligible for the prior year base revenue hold harmless adjustment. Thus, under this scenario, the district's revenue limit would have been \$24,358,000, which is the same as in the scenario in which there was no decline.

The declining enrollment adjustment is nonrecurring, meaning it would not carry over into 2021-22. Thus, the district's total revenue limit in both 2021-22 and 2022-23 would be \$24,151,000, its initial revenue limit in 2020-21 prior to the adjustment. In both of those years, the 2.5% enrollment decline in 2020-21 would have been included in both the prior year and current year enrollment

averages in the district's revenue limit count.

In 2023-24, the 2.5% enrollment decline in 2020-21 would still be part of the prior year enrollment average, but it would fall out of the current year enrollment average. Thus, from a revenue limit standpoint, the district would be an increasing enrollment district for the first time. As a result, the district would gain back the revenue limit authority it lost from the enrollment decline, with a revenue limit of \$24,358,000, which is equal to the amount it would have been in that year without the enrollment decline.

Table 3 shows the revenue limit for that hypothetical district for the next three years with one change to the scenario shown above. Instead of a 2.5% reduction, Table 3 shows the revenue limit comparison for a 10% reduction in enrollment in 2020-21 only, meaning 1,800 pupils were enrolled in 2020-21. As with Table 2, only the per pupil adjustment and the two declining enrollment adjustments are considered in the examples.

TABLE 3

Current Law Revenue Limit for District With and Without 10% Enrollment Decline

	<u>No Enrollment Decline</u>	<u>10% Decline in 2020-21</u>	<u>Difference</u>
2020-21	\$24,358,000	\$24,816,000	\$458,000
2021-22	24,358,000	23,542,000	-816,000
2022-23	24,358,000	23,542,000	-816,000
2023-24	24,358,000	24,358,000	0

As with the scenario shown in Table 2, with the \$179 per pupil adjustment in 2020-21, if there were no change in enrollment, the district's revenue limit would have increased to \$24,358,000 in that year, and would stay at that amount in each year through 2023-24.

If there were a 10% enrollment decline in 2020-21, the district's initial revenue limit would have declined to \$23,542,000. The declining enrollment adjustment would be \$816,000, which is amount of revenue limit authority the 200 pupils would have generated. The prior year base revenue hold harmless would have been \$458,000, which is the amount needed to get the district back to its base revenue of \$24,000,000. Thus, under this scenario, the district's revenue limit would have been \$24,816,000, an increase of \$458,000 (equal to the amount of the prior year base revenue hold harmless adjustment) compared to the scenario in which there was no decline.

Both of those adjustments are nonrecurring, meaning they would not carry over into 2021-22. Thus, the district's total revenue limit in both 2021-22 and 2022-23 would be \$23,542,000, its initial revenue limit in 2020-21 prior to the adjustments. In both of those years, the 10% enrollment decline in 2020-21 would have been included in both the prior year and current year enrollment averages in the district's revenue limit count.

In 2023-24, the 10% enrollment decline in 2020-21 would still be part of the prior year enrollment average, but it would fall out of the current year enrollment average. Thus, from a revenue limit standpoint, the district would be considered an increasing enrollment district. As a result, the district would gain back the revenue limit authority it lost from the enrollment decline, with a revenue limit of \$24,358,000, which is equal to the amount it would have been in that year without the enrollment decline.