

**DPI 2007-09 BIENNIAL BUDGET REQUEST**

**DECISION ITEM 5003 – DECLINING ENROLLMENT REVENUE LIMIT EXEMPTIONS**

<b>FISCAL SUMMARY</b>	
<b>2007-08 Request</b>	<b>2008-09 Request</b>
<b>\$0</b>	<b>\$0</b>

**Request/Objective**

The department requests two statutory language changes related to revenue limit calculations: (1) Provide that all districts receive at least their prior year base revenue limit, even if their enrollment decline along with their inflationary adjustment and low revenue ceiling increase (if applicable) are less than their base; and (2) Increase the current 75 percent declining enrollment provision to a 100 percent, or full, hold harmless provision on a non-recurring basis.

**Background/Analysis of Need**

Revenue limits were imposed on school districts beginning in 1993-94 and have now been in place for 14 years. While many districts have made difficult fiscal decisions under revenue limits, there is near consensus that declining enrollment districts are in the most challenging situation as some face the possibility of eliminating core educational programs, increasing class sizes, increasing (or imposing) fees, resulting in fewer services and programs being made available to children who reside in such districts.

Over 60 percent of the state’s school districts are currently experiencing declining enrollment, which in many cases has resulted in reductions to their existing programs. While the current 75 percent declining enrollment exemption under revenue limits (first effective in 1998-99) provides some temporary assistance each year, it is arguably not enough.

While it is commonly accepted that declining enrollment districts are numerous throughout northern and southwestern Wisconsin, often have fewer than 1,000 pupils, and are frequently rural, these conditions are not always met. Declining enrollment districts exist in all areas of the state, regardless of their size, property wealth, and level of expenditures per pupil.

A review of 2005-06 equalization aid data indicates the following:

- 12 of the state’s 20 largest districts (60 percent) were in declining enrollment.
- 16 of the state’s 25 most property wealthy districts (64 percent) experienced declining enrollment (using property value per pupil to measure property wealth).
- 36 of the state’s 50 highest spending districts (72 percent) were in declining enrollment (using shared cost per pupil to measure spending).

While the aggregate number of districts experiencing declining enrollment may soon level off or even decline slightly, this is not an issue that will disappear, and could well be the most significant factor in determining a district’s future viability. The table below shows the recent trend in districts with declining enrollment:

Fiscal Year	# of Districts in Declining Enrollment for Revenue Limit Purposes
2001-02	215
2002-03	233
2003-04	250
2004-05	266
2005-06	268
2006-07	255-265

Under current law, school districts calculate their three-year rolling enrollment average for revenue limit purposes based on the average of a school district's membership count taken on the third Friday in September for the current and two preceding years. That figure is compared against the prior three-year rolling average to determine if the district qualifies for the current allowable declining enrollment exemption. If the district's enrollment is declining, it is allowed, for that year only, to count 75 percent of the difference between the current three-year average and the prior three-year average enrollment and multiply that figure times its revenue limit per pupil. The district may not keep the revenue limit authority it generates in that year for future years.

EXAMPLE

Hypothetical District

Fiscal Year	Membership	Three Year Average	Current Law-75% Hold Harmless
2003-04	100	N/A	
2004-05	98	N/A	
2005-06	96	98	
2006-07	88	94	97

75 percent hold harmless calculation

Take 2005-06 (prior year) three-year average      98  
Less 2006-07 (current year) three-year average    94  
Equals actual membership decline                      4

Multiply actual membership decline by 75 percent for hold harmless figure  $4 \times 75\% = 3$   
Add hold harmless figure to current year average for new membership     $94 + 3 = 97$

Actual \$ value of current law exemption:

3 FTE pupils X \$9,000 (revenue limit per pupil) = \$27,000 in additional revenue limit authority for 2006-07 only.

In 2005-06, there were nearly 50 districts (all of which had declining enrollment) that had a lower initial revenue limit than their base revenue limit, even after receiving their statutory per pupil adjustment and low revenue ceiling increase. These are districts that are arguably in the most dire need of assistance, due to their often significant declines in enrollment under revenue caps. Many of these districts are located in rural areas throughout northern and southwestern Wisconsin, including districts such as Florence, South Shore, Butternut, Park Falls, River Ridge, and LaFarge. While an across-the-board proposal that would help all districts would also benefit these districts, it can be argued there should be some additional assistance provided to these types of districts.

## Proposals

1. All districts receive at least their base total revenue limit, even if their enrollment decline along with their inflationary adjustment and low revenue ceiling increase (if applicable) are less than their base. The proposal would (compared to current law):
  - Provide roughly \$2-3 million in additional revenue limit authority statewide annually (above the \$40-45 million now allowed on a non-recurring basis).
  - Benefit the 40-50 most severely declining enrollment districts, but not impact increasing districts.

### Local Fiscal Impact -

Would increase overall statewide revenue limit authority, above current law figures, by \$2-3 million in FY08 and an additional \$2-3 million in FY09.

### State Fiscal Impact -

While increasing revenue limit authority for school districts no longer has a direct impact on state funding, if it is assumed the state would continue to provide resources to cover two-thirds of school district property taxes, state funding related to this option alone would need to be increased by \$1-2 million in FY08 and an additional \$1-2 million in FY09.

2. Increase the current 75 percent declining enrollment provision to a 100 percent, or full, hold harmless provision on a non-recurring basis. The proposal would (compared to current law):
  - Provide roughly \$15-18 million in additional revenue limit authority statewide annually (above the \$40-45 million now allowed on a non-recurring basis).
  - Benefit all declining enrollment districts, regardless of the size of their membership decline.

### Local Fiscal Impact -

Would increase overall statewide revenue limit authority, above current law figures, by \$15-18 million in FY08 and an additional \$15-18 million in FY09.

### State Fiscal Impact -

If it is assumed the state would continue to provide resources to cover two-thirds of school district property taxes, state funding related to this option alone would need to be increased by \$10-12 million in FY08 and an additional \$10-12 million in FY09.

The fiscal effect of both proposals would result in school districts receiving roughly \$17-21 million in additional revenue limit authority annually during the 2007-09 biennium. As noted above, while increasing revenue limit authority for school districts no longer has a direct impact on state funding, if it is assumed the state would continue to provide resources to cover two-thirds of school district property taxes, state funding related to these proposals would need to be increased by \$11-14 million in FY08 and an additional \$11-14 million in FY09. These costs are built into the department's General Equalization Aids request—see DIN 7501.

## **Statutory Language**

The department is proposing statutory language related to this request. See *Declining Enrollment Revenue Limit Exemptions* in the Statutory Language section of this document.