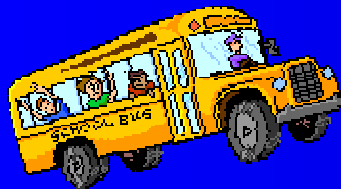
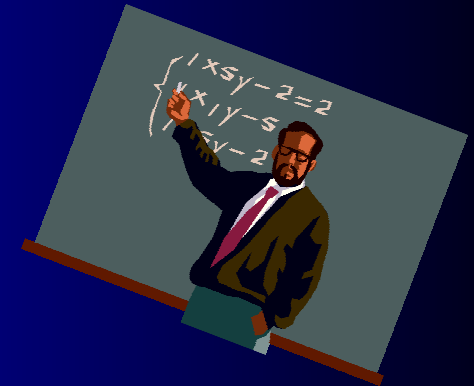


# E-12 Education Finance

10784.36  
5x9=45  
2.713372



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# **Education Finance**

**Budget Process**

**Constitutional Mandate**

**Some Basic Education Finance Terms**

**The Education Finance Budget**

**November Forecast & State Budget**

**The 2001 Reform -- What Happened?**

**Is 2003 Instructive? Getting “Shifty”**

**Pupil Accounting**

**General Education**

**Referendum**

**Reserve Revenues & Penalties**

**Special Education**

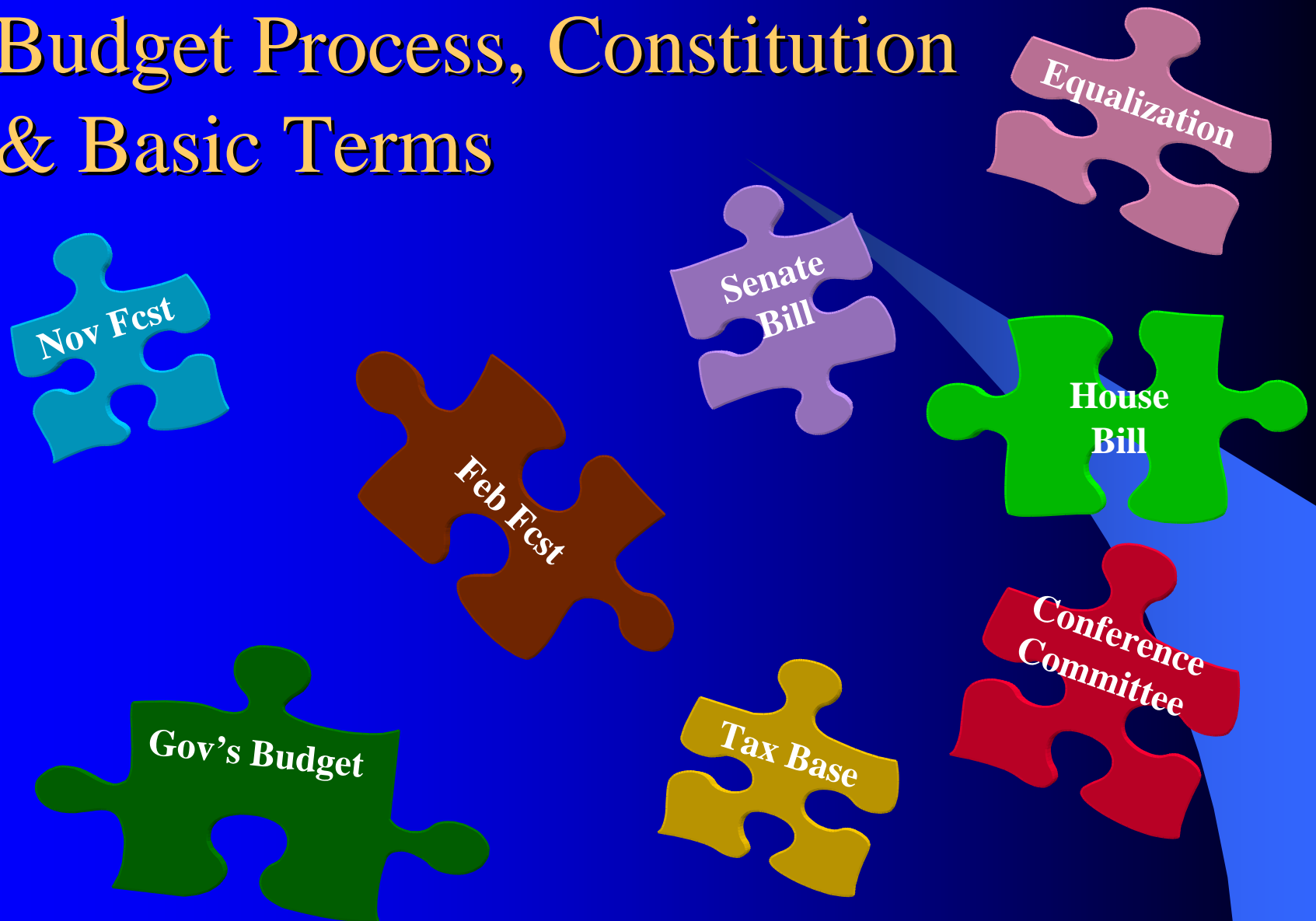
**Capital & Facilities**

**Early Childhood, Prevention & Lifelong Learning**

**Where to Get More Information**

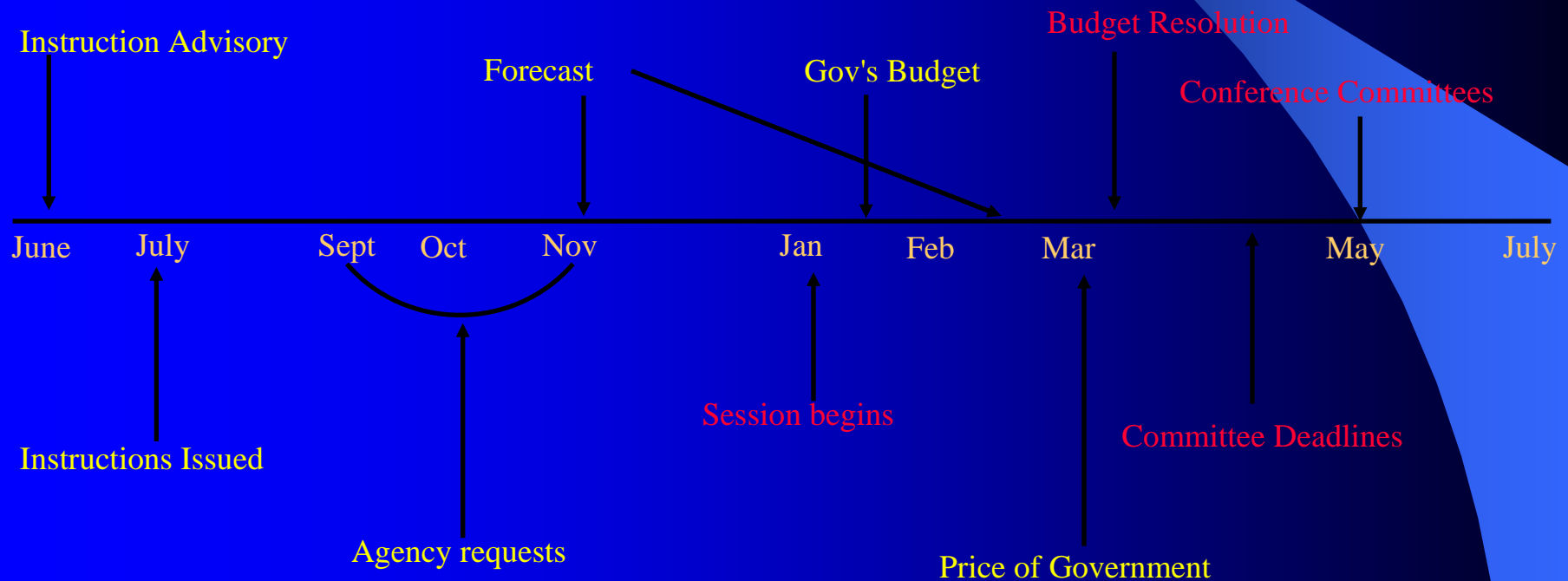
**Minnesota Senate E-12 Staff**

# Budget Process, Constitution & Basic Terms



# State Budget Process

## Timelines



# Budget Process

## Important Documents

### Spreadsheets

- E-12 Aids Budget
- E-12 Tax Budget
- Committee Agenda Tracking
- Entitlement Tracking

### Bill Summary

### Fiscal Note

### District-by-District Datarun



# Constitutional Mandate

**“The stability of a republican form of government depending mainly upon the intelligence of the people, it is the duty of the legislature to establish a general and uniform system of public schools. The legislature shall make such provisions by taxation or otherwise as will secure a thorough and efficient system of public schools throughout the state.”**

**-- MN State Constitution, Article 13, section 1**

# Basic Terms: Revenue/Levy/Aid

## Revenue

Funds available for school districts to spend

## Levy

Revenue raised from taxation on property in a school district

## Aid

Aid provided by state legislature to school districts

## Rule of Thumb



$$\text{AID} = \text{REVENUE} - \text{LEVY}$$

# Basic Terms: Acronyms

## **ADMs**

**Average Daily Membership = An average count of pupils in the classroom**

## **WADMs**

**Weighted Average Daily Membership = ADMs weighted by grade specific factors (discussed in detail later)**

## **AMCPUs / RMCPUs**

**Adjusted Marginal Cost Pupil Units or Resident Marginal Cost Pupil Units = WADMs adjusted for declining enrollments in some districts**

## **ANTC**

**Adjusted Net Tax Capacity = The tax base used in many K-12 formulas to measure the relative wealth of property in each district.**

## **RMV**

**Referendum Market Value = The market value of all taxable property in a district excluding seasonal rec and agricultural lands.**



# Basic Terms: K-12 Finance



## Allowance

A statutorily determined number that when multiplied by the number of pupils generates a revenue amount for districts.

## Equalization

The process of reducing the impact of property wealth to generate revenue for school districts by appropriating state aid. State aid is appropriated in higher amounts for districts with relatively less property wealth.

## Equalizing Factor

A statutorily determined amount of tax capacity per pupil that determines the amount of aid and levy in a given district. Districts with tax base above the equalizing factor receive no aid.



## Fiscal Year

A 12 month budgeting period. For school finance & the state of MN, a fiscal year begins July 1 and ends June 30. School year 2008-09 is the same as FY 2009

## A Momentary Diversion: Aid/Levy Split Policy

- The higher a district's property value, the more revenue is raised through levy
- For a given amount of revenue the poorer district will receive a greater percentage of state aid/the wealthier district will receive lesser amounts of state aid

### Example:



# Basic Terms: K-12 Finance

## Free and Reduced Lunch

A measurement of poverty based on students eligibility for the free or reduced priced school meal program.



## Aid Entitlement

100 percent of the state aid a district or a charter school is eligible to receive in a given fiscal year. Aid may actually be paid in a separate fiscal year



## Categorical Aid

Funds paid to a school district for a designated purpose. These funds may not be used for purposes that are not specified in law.

## Appropriation

The amount of state aid that the legislature pays to districts and charter schools in a given year. In some cases, the appropriation consists of a portion of an aid entitlement from the current fiscal year and a clean-up payment from an aid entitlement from the prior fiscal year.



# Education Finance Budget, Past Actions & Getting “Shifty”

\$415  
Transfer

Spec.  
Educ

Financial  
Trends

Educ.  
Aid

Aid-  
Levy  
Split

Nutrition &  
Libraries

General  
Fund

Debt Service  
Fund

# Education Finance Budget FYs 08-11

<u>Education Aid</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
General Education	\$5,590.2	5,648.4	5,650.7	5,680.6
Other General Education	41.9	41.9	42.4	43.2
Education Excellence	147.6	164.4	154.1	161.6
Special Education	789.8	830.6	848.0	895.8
Facilities & Technology	83.7	92.4	33.5	32.8
Nutrition, Library, Other	31.1	35.9	37.0	37.6
Children & Family Support	54.1	63.6	57.4	57.2
Prevention	4.7	4.2	1.4	1.2
Self Sufficiency & Lifelong Learning	41.6	41.9	43.1	44.3
<u>MDE, Other Agencies</u>	<u>37.9</u>	<u>43.5</u>	<u>40.7</u>	<u>40.7</u>
<b>Total</b>	<b>6,822.6</b>	<b>6,966.7</b>	<b>6,908.2</b>	<b>6,995.0</b>

\*Based on Nov08 Fest

# Education Budget FYs 08-11

<u>E-12 Property Taxes</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
General Fund	1,061.2	1,183.0	1,275.2	1,416.6
Community Service Fund	72.5	65.6	73.9	74.8
Debt Service Fund	711.6	738.1	769.5	807.7
OPEB/Pension Debt Svce	0.0	0.0	30.4	41.1
<b>Total Schl Dist Levies</b>	<b>1,845.3</b>	<b>1,986.7</b>	<b>2,149.1</b>	<b>2,340.3</b>
<b>Credits &amp; Adj</b>	<b>(71.0)</b>	<b>(69.7)</b>	<b>(67.1)</b>	<b>(66.0)</b>
<b>Total Certified Levies</b>	<b>1,774.2</b>	<b>1,917.1</b>	<b>2,081.9</b>	<b>2,274.3</b>

\*Based on Nov08 Fcst

# November 2008 Forecast & State Budget

## General Fund Structural Forecast

	<u>FY 2008-09</u>	<u>FY 2010-11</u>	<u>FY 2012-13</u>
Revenues	32,445	31,866	34,558
Spending	34,611	36,713	39,162
Difference	(2,166)	(4,847)	(4,604)
Beginning Bal	2,245		
Reserve	(155)		
Cash Flow	(350)		
Difference	(426)		
Gov Used Reserve	155		
Unallotments	271		
“Final” Diff	0		

**The Remaining Problem**

**E-12 is 37.8% of total G.F. in FY 2010-11**

(1,832) (1,704)

# Education Budget

## Education Shift Savings – A History

### Payment Shift

State aid is paid to districts in 23 payments throughout the school year.

For most state aid districts' payments are comprised of a combination of 90% of the current year's entitlement added to 10% of the prior year's entitlement.

### Property Tax Recognition Shift (PTRS)

Property taxes are paid in October and May.

School districts recognize most May payments as revenue in the subsequent fiscal year.

A PTRS is an accounting entry that takes a portion of a district's property tax revenue and moves it forward one year. (ie. PT revenue that would otherwise be revenue in FY 2011 are shifted into FY 2010)

The second step is to reduce state aid in an amount equal to the property taxes shifted forward. This generates one-time savings.



# Education Budget

## Mechanics of a Payment Shift

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>			
Entitlements	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000			
Appropriation Pieces	<div><div><u>* 10%</u></div><div>\$5,000</div></div>	<div><div><u>* 90%</u></div><div>\$45,000</div></div>	<div><div><u>* 10%</u></div><div>\$5,000</div></div>	<div><div><u>* 83%</u></div><div>\$41,500</div></div> <div><div><u>* 17%</u></div><div>\$8,500</div></div>	<div><div><u>* 80%</u></div><div>\$40,000</div></div> <div><div><u>* 20%</u></div><div>\$10,000</div></div>	<div><div><u>* 80%</u></div><div>\$40,000</div></div>		
Appropriations		+		+				
		<div><div></div><div>\$50,000</div></div>		<div><div></div><div>\$46,500</div></div>		<div><div></div><div>\$48,500</div></div>		<div><div></div><div>\$50,000</div></div>

# Education Budget

## Education Shift Savings – A History of Legislative Changes

<u>Fiscal Year</u>	<u>Type</u>	<u>Level</u>	<u>Amount</u> (if known)	<u>Year Paid Back</u>
1983	PTRS	32%	(\$240.7 M)	Partially in '85, '96-'99
1985	PTRS	24%	shift reduced	
1988	PTRS	27%	shift expanded	1996-1999
1990	PTRS	31%	shift expanded	1996-1999
1992	PTRS	37%	shift expanded	1996-1999
1993*	PTRS	50%	shift expanded	Partially in '94
1994	PTRS	37.4%	shift reduced	
1996	PTRS	18.1%	shift reduced	
1997	PTRS	7%	shift reduced	
1997	Payment	90/10	shift reduced	
1999	PTRS	0%	PTRS eliminated	
2003	Payment	83/17	( \$437.5 M)	Nov. 2005 Fcst
2004**	Payment	80/20	(\$185.3 M)	Nov. 2005 Fcst
2004**	PTRS	48.6	( \$230.3 M )	Feb. 2006 Fcst

\*Shift high point in FY 1993, \$688 million owed to school

\*\*2004 the Legislature passed the contingent shift buyback language.

# Education Budget

## Education Shift Savings – A History of Legislative Changes

<u>Fiscal Year</u>	<u>Type</u>	<u>Level</u>	<u>Amount</u> (if known)	<u>Year Paid</u> <u>Back</u>
2005	Payment	81.9/18.1	\$116.3 M	Nov. 2004 Fcst
2005	Payment	84.3/15.7	\$143.7 M	Feb. 2005 Fcst
2006	Payment	84.3/15.7	\$355.0 M	Nov. 2005 Fcst
2006	PTRS	10.8%	\$265.9 M	Nov. 2005 Fcst
2006	PTRS	0%	\$72.9M	Feb. 2006 Fcst

# Contingent Shift Buy-Back

- **2004 forecast bill (Laws 2004, Ch. 272, Art. 3, Sect. 1) created a structure to pay shifts back automatically.**
- **In order of precedence: (1) Cash flow account, (2) budget reserve, (3) payment shift and (4) property tax recognition shift**
- **Shifts are paid back when the Commissioner of Finance “determines that there will be a positive unrestricted budgetary general fund balance at the close of the biennium.”**
- **This process used once already. Shifts of from 2002 & 2003 sessions were paid back in two years.**

# Education Budget: A Look Back

## 2001 Education Reform

**General Education Property Tax Replaced with State Aid**

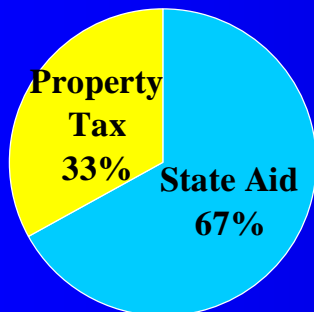
**Levy = 1.3 billion; Total State Cost \$880 million after “netting” credits from income tax.**

**Supplemental & Transition Revenue programs “rolled” into Referendum Authority**

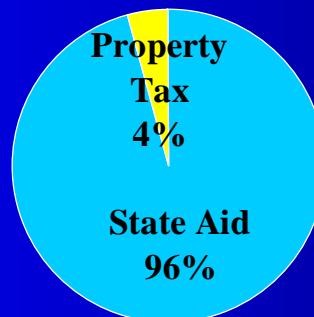
**\$415 of referendum authority transferred to GenEd formula allowance**

**\$120 million of Referendum, Supplemental, & Transition Levy Replaced with State Aid.**

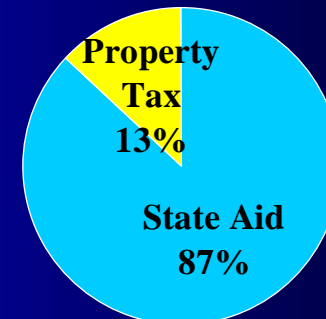
**2002 GenEd  
& Ref Rev. Source**



**2003 GenEd &  
Ref. Rev Source**



**2009 GenEd &  
Ref. Rev Source**



Based on Nov 08 Fcst.

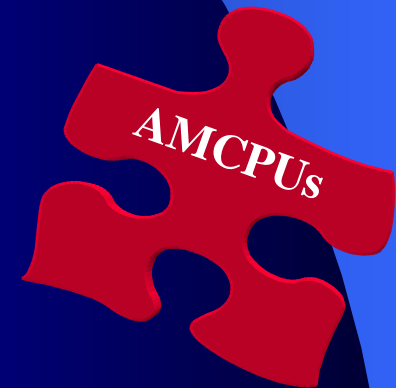
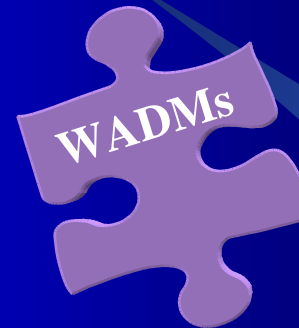
# Education Budget

## What Happened in 2003 Session??

<u>Type of Education</u> <u>Finance Cuts</u> \$ of dollars	<u>FY 0405</u>	<u>% of Total</u>	<u>FY 0607</u>	<u>% of Total</u>
Shifts	436.9	70.3%	77.6	15.8%
State Aid to Property Tax Conversion	21.7	3.5%	29.6	6.0%
Eliminate Statutory Growth Factors	79.8	12.8%	205.0	41.7%
Programmatic Cuts	<u>83.5</u>	<u>13.4%</u>	<u>179.4</u>	<u>36.5%</u>
Total	621.9	100%	491.7	100%

# Pupil Accounting

M.S. 126C.05



# Pupil Accounting

## Average Daily Membership (ADM)



### Resident ADMs

District residents enrolled in a public school



### ADMs Served

Resident ADMs

PLUS Nonresidents attending a district under open enrollment

MINUS Residents attending another district or charter school under open enrollment



# Pupil Accounting

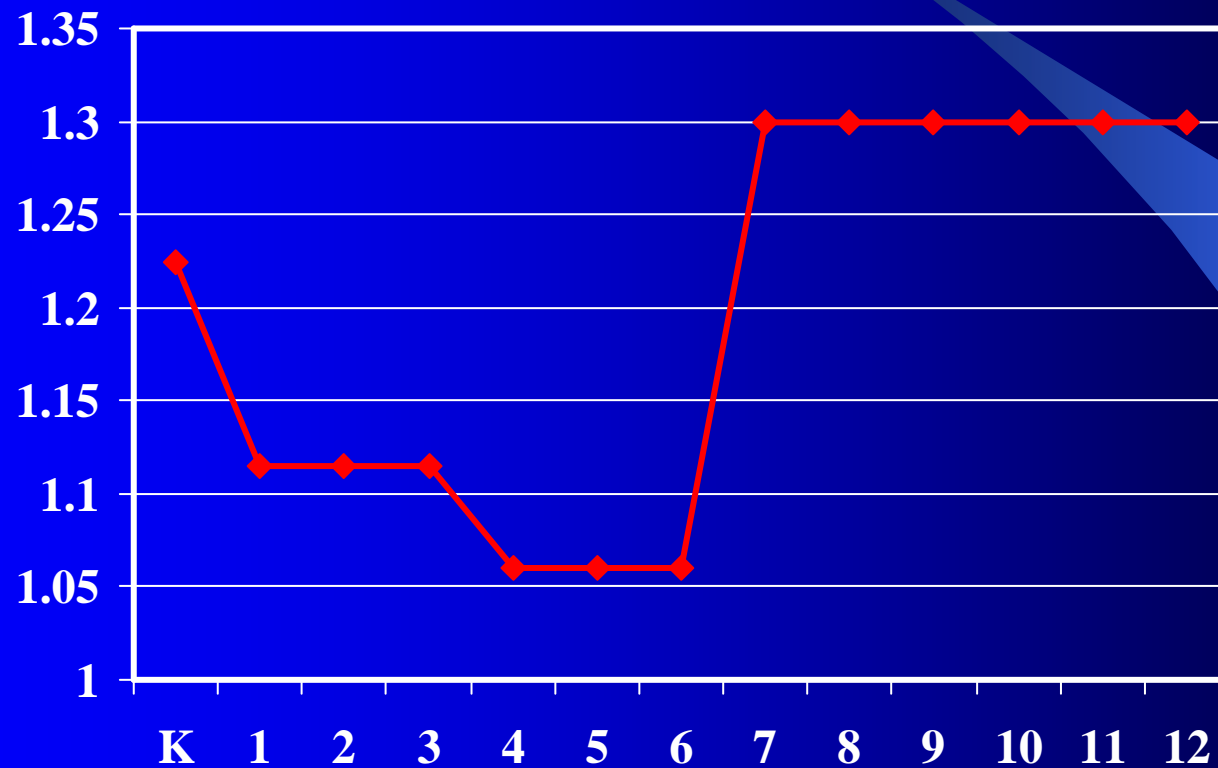
## Weighted Average Daily Membership (WADM)

WADMs are ADMs weighted by grade levels to provide different levels of revenue based on different grade levels

<u>Grade</u>	<u>Weight</u>
 Pre-K and K Disabled	1.25
 Regular Kindergarten	.612
 Grades 1-3	1.115
 Grades 4-6	1.06
 Grades 7-12	1.30

# Pupil Accounting

## Weighted Average Daily Membership (WADM)



# Pupil Accounting

## Marginal Cost Pupil Units

**RMCPUs used to calculate operating referenda**

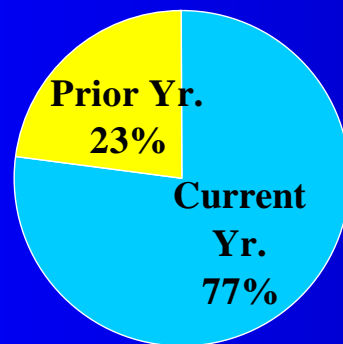
**AMCPUs used to calculate most other formulas**

**Enacted to ease the impact of declining pupils**

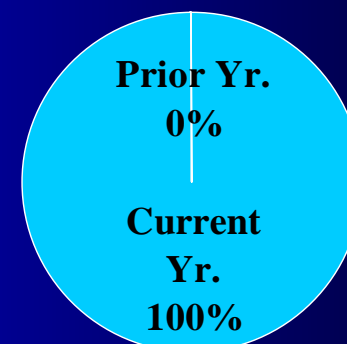
**Districts with enrollment declines count 77% of current year WADMs and 23% of prior year WADMs. Together they equal R/AMCPUs**

**Growing school districts count only the current year WADMs**

**Declining Districts**



**Growing Districts**



# Pupil Accounting

## Compensation Pupil Units (Used for compensatory revenue)

Based on students eligible for free or reduced price lunch at each school building

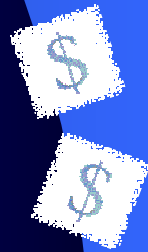
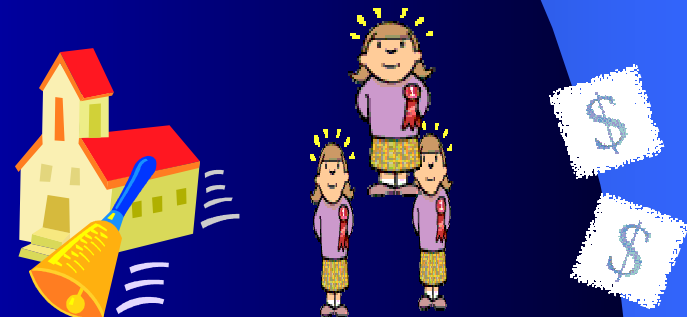
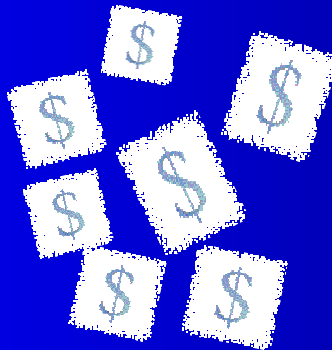
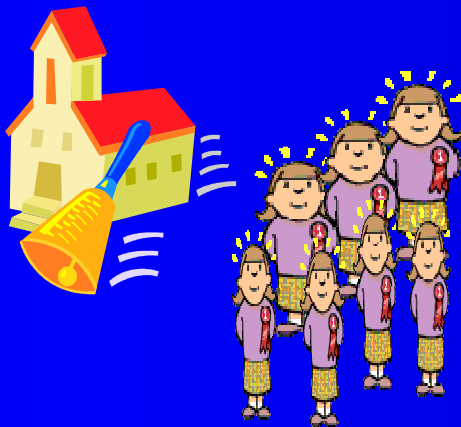
In the formula, free lunch students count as one:



Reduced lunch students count as one-half:



The greater the concentration of students eligible for free or reduced lunch at a building, the higher the number of compensation pupil units used to compute compensatory revenue.



# Pupil Accounting

## LEP Pupil Units (Used for LEP Revenue)

An LEP student meets the following criteria:

1. A student who first learned a language other than English and comes from a home where the language usually spoken is other than English.
2. A student who is determined to lack the necessary English skills to fully participate in classes taught in English. (For grades K-2 only.)
3. A student who scores below the state cutoff score on an assessment measuring emerging academic English. (For grades 3-12 only.)

### LEP Concentration Percentage

$$100 * \frac{\text{LEP Pupils}}{\text{ADMs}}$$

### LEP Pupil Units

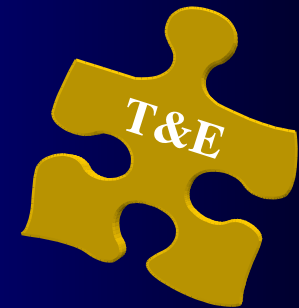
The lesser of:

$$1 \quad \text{or} \quad \frac{\text{LEP Concentr. Percentage}}{11.5}$$

10784.36  
5x98=1  
2.719372

# General Education & Referendum Programs

M.S. 126C.10 & 17



# General Education Programs

## Basic Revenue

AMCPUs \* Formula allowance

Formula allowance set in law by the legislature

Current formula allowance is \$5,124

Provides primary revenue to operate school districts

\$4,871.6 million in FY 09

Fiscal Year Allowance

2009 \$5,124

2008 \$5,074

2007 \$4,974

2006 \$4,783

2005 \$4,601

2004 \$4,601

2003 \$4,601

2002 \$4,068

2001 \$3,964

2000 \$3,740

1999 \$3,530

10784.36  
5798.71  
2.713372

# General Education Programs

## Extended Time Revenue



**Revenue equal to Extended Time FA \* Extended Time Pupil Units**

**Current Extended Time Formula Allowance = \$4,601**

**No Requirement that the Basic Formula and Ext. Time Formula Must be Equal.**

**\$61.0 million in FY 09**



# General Education Programs

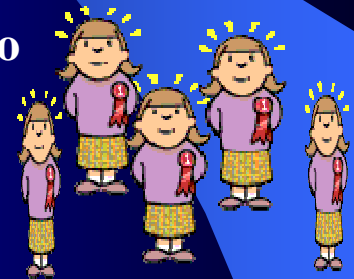
## Compensatory Revenue

Districts receive additional funding for students eligible for free and reduced lunch

Free and reduced lunch is a measure of poverty

Districts receive higher amounts of compensatory revenue based on their **CONCENTRATION** of poverty at each school site.

Revenue must be allocated to the site where the pupil who generated the revenue is educated.



Compensatory revenue is equal to a districts “compensation pupil units” multiplied by the basic formula allowance minus \$415

**\$347.5 million in FY 09**

# General Education Programs



## Limited English Proficiency Revenue

Provides revenue to assist students whose English language ability needs improvement.

Comprised of two separate formulas: Regular and Concentration



LEP Regular Revenue: \$700 multiplied times the greater of 20 or the LEP pupil units



LEP Concentration Revenue: \$250 multiplied times the LEP Students times the LEP Pupil UNITS.



LEP Revenue: Sum of the concentration and regular LEP revenue streams.

**\$40.9 million in FY 09**

# General Education Programs

## Sparsity Revenue

Districts with one or more sparsely populated school attendance areas receive additional funds to meet the higher costs of operating schools.

Comprised of an “Elementary” Sparsity formula and a “Secondary” Sparsity formula.

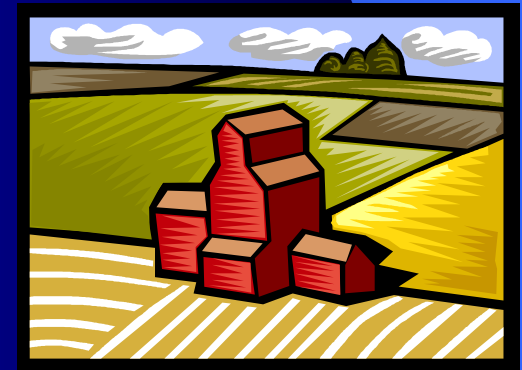
### Eligibility:

To be eligible for secondary sparsity high schools within a district must have 400 ADMs or less and an Isolation Index at a certain level.

To be eligible for elementary sparsity elementary schools within a district must be located 19 more miles from the next nearest elementary school and have 20 or fewer pupils per grade.

Like compensatory, elementary and secondary sparsity are keyed to formula allowance.

\$22.5 million in FY 09.



# General Education Programs

## Transportation Sparsity

This formula recognizes the additional costs of transporting students in districts with fewer students per square mile

Basic transportation costs were made part of the formula allowance in 1996-97 when \$170 was “rolled in” to the allowance.

Transportation sparsity revenue is determined by the level of “sparseness” per square mile within a district. This is computed by logarithmic calculation using a sparsity index and density index.

Sparsity Index: The greater of .2 or the number of square miles in the district divided by the number of WADMs.

Density Index: The number of square miles divided by the number of WADMs. Density index may not exceed .2 or less than .005.

This formula is increased by the growth in the basic formula allowance and is reduced by 4.85% of the formula allowance. The reduction represents the percentage, in 1997, that the \$170 was of the basic formula allowance.

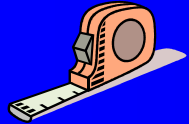
\$60.9 million in FY 09.



# General Education Programs

## Operating Capital Revenue

This formula is to be used for repair and maintenance of facilities, acquisition of land, purchase or lease of equipment, or purchase of books.



Revenues must be placed in the district's operating capital account in the general fund.

Maintenance Cost Index (MCI):  $1 + (\text{Average Age of School Buildings}/100)$

Technology Piece

\$5



Equipment Piece

\$68

Facilities Piece

$(\$100 * \text{MCI})$

Districts with a learning year program receive an additional \$30 per pupil at the learning year site.

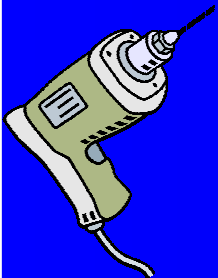
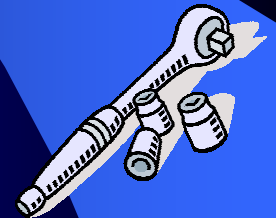
Op Cap Allowance =

+

+

Operating Capital Revenue:

Op Cap Allowance \* AMCPUs = Operating Capital Revenue



\$194.2 million Revenue in FY 09.

\$120.9 million Levy in FY09.

\$73.3 million Aid in FY09

# General Education Programs

## Equity Revenue

Most Complex Education Finance formula

Equity revenue is calculated based on revenue that districts receive for other revenue formulas.

First created in 1999 to provide low property tax base districts who are unable to pass referenda with addition revenue

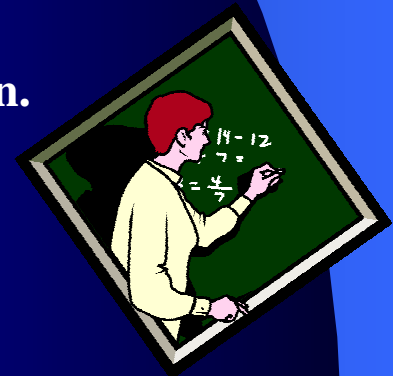
Frequently amended and adjusted to accomplish legislative goals

Now contains four separate formulas

Equity is equalized formula. Savings created in 2003 session by converting some of this formula to property tax. In FY09, revenue is:

\$94.5 million, levy is \$74.4 million, and aid is \$20.1 million.

10784.36  
57921  
2.713372



# General Education Programs

## Equity Revenue #1

Equity revenue is aimed at reducing the disparity between the highest and lowest REVENUE on a regional basis. Districts within the 7-county metro area comprise one region. All other districts comprise a second region.

Within a region districts are ranked based on their combined basic and referendum revenue per AMCPU. Districts below the 95<sup>th</sup> percentile are eligible for equity revenue. (Minneapolis, St. Paul and Duluth are ineligible)

All eligible districts receive \$13 per pupil. Districts with operating referenda are eligible to receive additional equity revenue based upon the district's percentile ranking

Regional Equity Gap (REG): [District at the 95<sup>th</sup> Percentile] – [District at the 5<sup>th</sup> Percentile]

District Equity Gap (DEG): [District at the 95<sup>th</sup> Percentile] – [District's Revenue per AMCPU]

Equity Index (EI): [DEG]/[REG]

$$\begin{array}{r} 10784.36 \\ 5 \times 98 = 490 \\ \hline 2.713372 \end{array}$$

Equity Formula #1:  $\$13 + (\$75 * [EI]) * \text{AMCPUs}$

# General Education Programs

## Equity #2 Revenue

- Program directed at small, rural school districts.
- Provides revenue to districts based on a computed allowance multiplied by the district's pupil units.
- The allowance is equal to the difference between 10% of the statewide average referendum per AMCPU and the district's referendum revenue per pupil unit.
- Cannot exceed \$100,000.

## Equity #3 Revenue

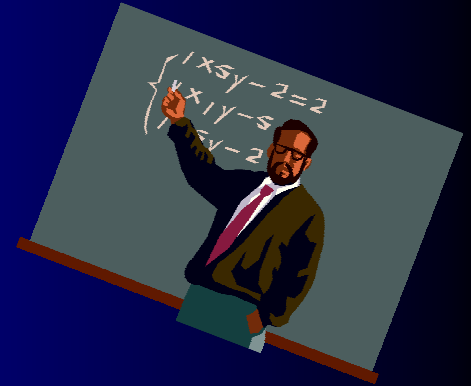
- For districts in the metro area ONLY.
- Program designed to recognize higher costs of education in metro area.
- Revenue equals Equity #1 & Equity #2 revenue multiplied times 1.25.

## Equity #4 Revenue

- For all school districts.
- \$46 multiplied times the district's AMCPUs



# General Education Programs



## Training and Experience Revenue

Partially compensates school districts for salary differences of teachers employed in the district during the 1996-97 school year. Districts receive additional revenue based on the educational attainment and seniority of their teaching faculty.

$$\begin{array}{r} 10784.36 \\ 579 \overline{) 2.713372} \end{array}$$

T&E Formula:  $([\text{T\&E Index}] - .8) * \$660 * \text{AMCPUs}$

This revenue stream is phasing out. When districts no longer have faculty from the 1996-97 school year, their T&E revenue will be gone.

\$1.3 million in FY 09.

# General Education Programs

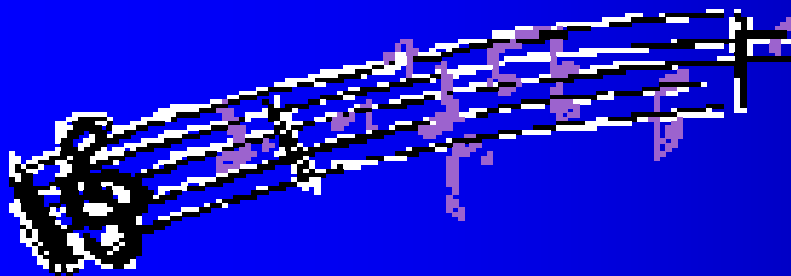
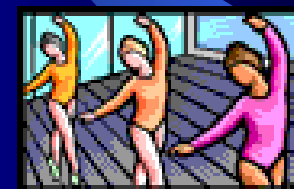
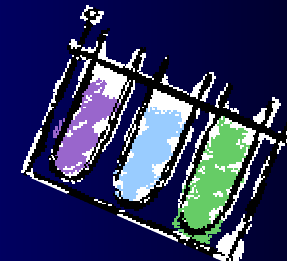
## Gifted and Talented Revenue

Provides revenue to districts for staff development, develop local programs and teach “gifted and talented” students.

A new revenue stream in FY 2006.

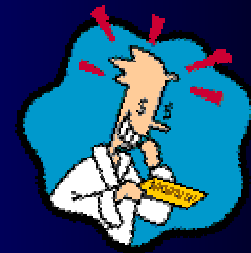
G&T Formula:  $\$9 * \text{AMCPUs}$

\$11.4 million in FY 09.



# General Education Programs

## Transition Revenue



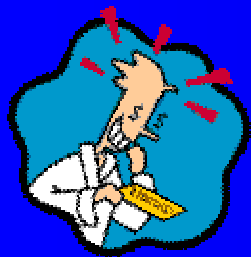
*New Program for FY 2004. Used to help create savings during the 2003 budget cutting session.*

Calculated to create a temporary “hold harmless” provision for districts.

Revenue equal to the difference between a district’s 2003-04 GenEd revenue per pupil and the lesser of

- (a) The district’s 2003-04 revenue had no law changes been made by the 2003 legislature, or
- (b) the district’s 2002-03 revenue.

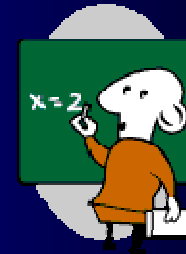
Beginning in FY 2005, this revenue is a mix of aid and levy.



FY09 Revenue = \$29.7 million; Aid = \$5.4 million; Levy = \$24.3 million

# General Education Programs

## Alternative Teacher Compensation (Q.Comp)



*Designed to create incentives for districts to pay teachers based on merit rather than seniority.*

**Districts are required to commit paying teachers based on merit, in addition to the “steps & lanes” seniority process**

**Qualifying districts will receive up to \$260 per pupil in revenue (aid/levy mix)**

**Not all eligible districts will qualify. Department of Education determines qualifying districts.**

**Legislature limited new participation in program for fiscal years 2009 and 2010 only**



**Original funding capped at \$75 M aid and \$24 M of levy.**

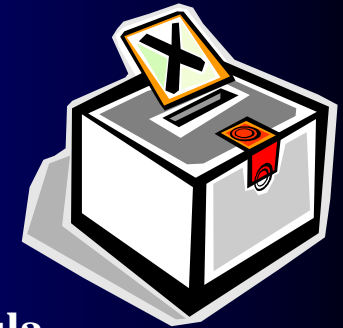
**FY09 Revenue = \$66.4 million; Aid = \$52.4 million; Levy = \$14.0 million**



# Operating Referendum

M.S. 126C.17

Approved by school district voters to provide districts with additional operating revenue.



**Limit:** \* Referendum revenue may not exceed 26% of the formula allowance -- \$1,294 per pupil in current school year.

- \* Some districts may exceed this limit if they had a high referenda when the limit was put in place (1994). These districts may add inflationary growth.
- \* Sparsity districts may also exceed the cap.

**Mix:** Depending on a district's property wealth, some of the revenue is raised in the form of a property tax levy some from state aid. The higher a district's property wealth, the more referendum revenue will be raised by levy. This process is called "equalization".

**Difference:** Referendum revenue is determined based on a **RESIDENT** pupil count. The AID portion of the revenue is portable with a student to the school in which the student receives an education.

**"Simple Formula":** Referendum Revenue = Referendum Allowance \* RMCPUs

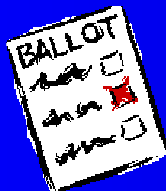
In FY 2009	\$79.0 million in Aid
	\$636.8 million in Levy
	\$724.4 million in Revenue

# Operating Referendum

**Equalization:** The first \$600 per RMCPU of approved referendum revenue is equalized at \$476,000. The next \$694 (\$1,294-600) per RMPCU of referendum revenue is equalized at \$270,000.

**An Exception:** School districts that qualify for sparsity revenue qualify for equalization on all referendum revenue.

**The Process (an example):**



A school district with:

2,000 Resident Marginal Cost Pupil Units

250,000,000 Referendum Market Value

..... asks voters to approve a \$750 per pupil referendum

.....and if the voters approve, we know.....

The REVENUE will be:                      \*                      = \$1,500,000

# Operating Referendum

## The Process (continued)

2,000	Resident Marginal Cost Pupil Units			
250,000,000	Referendum Market Value		Ref Market Value Per Pupil:	
750	Referendum Allowance		/	= 125,000

The First Tier:      600 \*      = 1,200,000

The Second Tier:      -      = 150      \*      = 300,000

First Tier Levy:      \* (      / 476,000 ) = 315,126

Second Tier Levy:      \* (      / 270,000 ) = 138,889

Total Levy:      +      = 454,015

Total Aid:      1,500,000 -      = 1,045,985

Levy/Aid Split Percent:      30.3%      69.7%

# General Education Programs

## NEW FOR FY 2009 ONLY

### One-Time Basic Formula

Similar to Basic Formula

AMCPUs \* \$51

Established in 2008 Finance Bill

Does not pass through to compensatory, sparsity or  
transportation sparsity

Does not affect the operating referendum cap  
Is not statutory. Is not built into the  
base for fiscal years beyond 2009

\$48.5 million in FY 09.

10784.36  
5x9.51  
2.713372



# Reserve Revenues and Penalties

- Learning and Development Revenue
- Reserved Revenue for Staff Development
- Operating Capital Revenue for Telecommunications Access
- Contract Settlement Deadline Penalty

# Learning and Development Revenue

M.S. 126C.12

Requires districts to reserve part of its general education revenue to reduce or maintain a class size ratio of 17 to 1 for kindergarten through grade three

This amounts to about \$179.1 million reserved statewide in FY2009



# Reserved Revenue for Staff Development

M.S. 122A.61

Requires districts to reserve two percent of the basic formula amount (currently about \$102 per pupil) for staff development

Districts may opt out of this requirement if the school board and the majority of the teachers agree to do so, or if the district is in statutory operating debt



# Contract Settlement Deadline Penalty

M.S. 125A.75, Subd. 3

Reduces state aid to districts by \$25 per pupil in the first year of a biennium if a district and its teachers' union fail to reach a collective bargaining agreement by January 15 of the year following the expiration of the teachers contract

This penalty was set aside for bargaining cycles 2001-02 & 2002-03



# Special Education

Home-  
Based  
Travel  
Aid

Special  
Pupil Aid

Special  
Education  
Revenue

Excess Cost  
Aid

Transition –  
Disabled  
Revenue

# Special Education Budget

Special Education Programs  
Based on November 2008 Forecast

<b>Program</b>	<b><u>FY 2008</u></b>	<b><u>FY 2009</u></b>	<b><u>FY 2010</u></b>	<b><u>FY 2011</u></b>
Special Education	\$677.6	\$716.9	\$734.1	\$781.5
Excess Cost Aid	108.7	110.8	110.9	110.9
Transition-Disabled Rev.	.9	-	-	-
Special Pupil Aid	2.1	2.3	2.5	2.8
Home-Based Travel	.2	.2	.2	.3
<u>Other Special Education</u>	<u>.3</u>	<u>.3</u>	<u>.3</u>	<u>.3</u>
<b>Total</b>	<b>789.8</b>	<b>830.6</b>	<b>848.0</b>	<b>895.8</b>

# Special Education Revenue

M.S. 125A.75 – 125A.76

Provides state aid to districts for:

- 68% of salaries for special education teachers and other essential personnel
- 52% of contracted costs above the general education formula
- 47% of supplies and equipment, max \$47 per pupil

New in 2008: Special Education is calculated based on current year estimates.

State total amount of revenue is capped and is pro-rated to districts

**\$716.9 million in FY 09**

# Excess Cost Aid

M.S. 125A.79

- Provides additional state aid to districts when their unreimbursed special education costs exceed 4.36% of the district's general education revenue
- State total amount of revenue is also capped and is prorated to districts

**\$110.8 million in FY 09**



# Recent Changes

- Line item “roll-ins”
  - Part C
  - Transition-disabled revenue
- Program growth factors reinstated
- 2 – year lag eliminated

# Tuition Billing

M.S. 125A.11

- For FY 07 and later:

Special education aid paid to the resident district must be reduced by an amount equal to:

- Actual cost of providing special instruction; plus
- General ed revenue and referendum revenue equalization aid; minus
- Any special education aid already received; minus
- General ed revenue if the pupil receives special instruction and services outside the regular classroom for more than 60% of the day.

# Transition-Disabled Revenue

M.S. 124D.454

- Provides additional state aid to districts for career and technical programs for students with disabilities
- Formula works similar to regular special education revenue. The state total amount is also capped and may be pro-rated to districts
- Effective FY 2009, the line item for transition-disabled revenue was rolled into regular special education

# Special Pupil Aid

M.S. 125A.75, Subd. 3

- Districts are reimbursed for special education costs for students placed in a state institution, a licensed residential facility, or a foster facility for care and treatment AND parental rights have been terminated, their parent or guardian live outside of the state, is a resident of a state correctional facility, or a resident district cannot be determined

\$2.3 million in FY 09

# Home-Based Travel Aid

M.S. 125A.75, Subd. 1

- Districts are reimbursed for 50% of the travel costs of essential personnel providing home-based services to children with a disability who are under age five



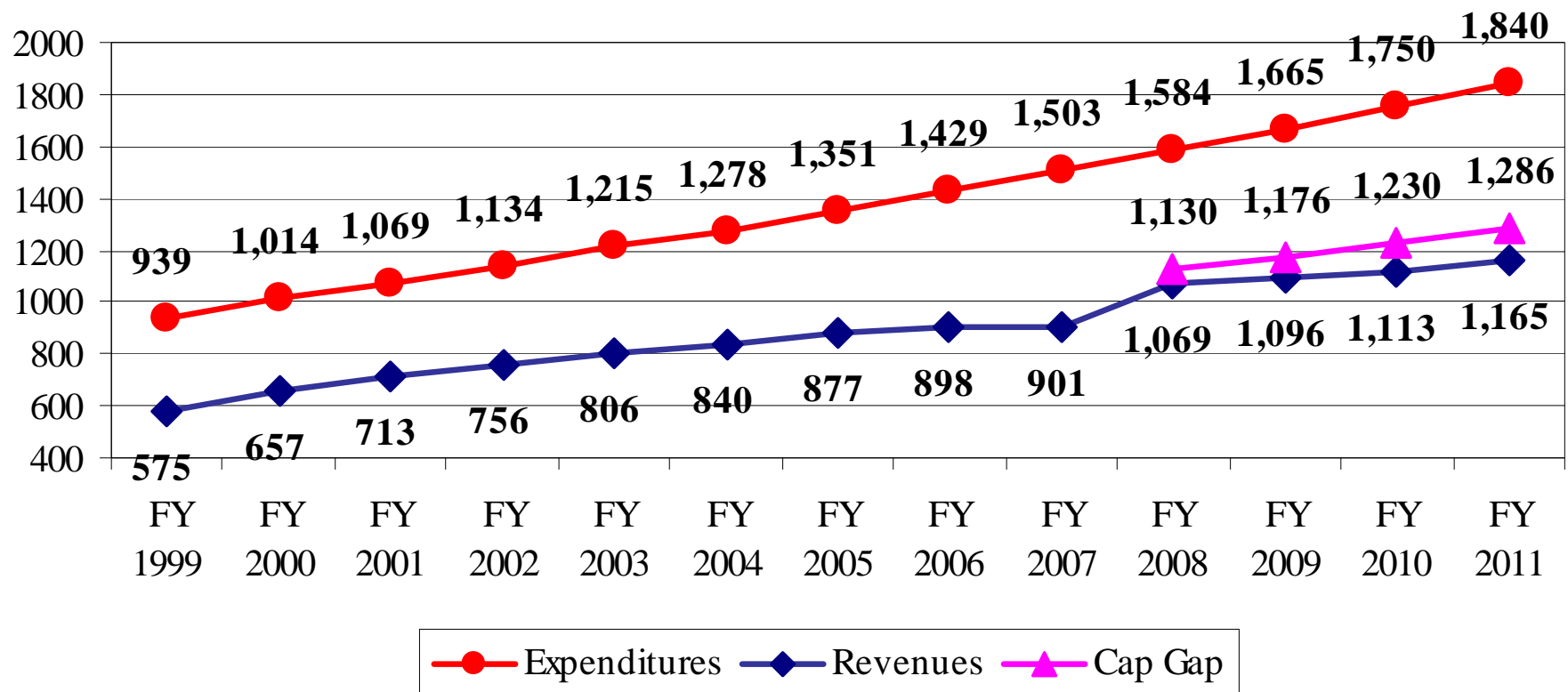
**\$229,000 in FY 09**

# Special Education Fiscal Policy

## Special Education Expenditures

FYs 1999 - 2011

\$ in Millions



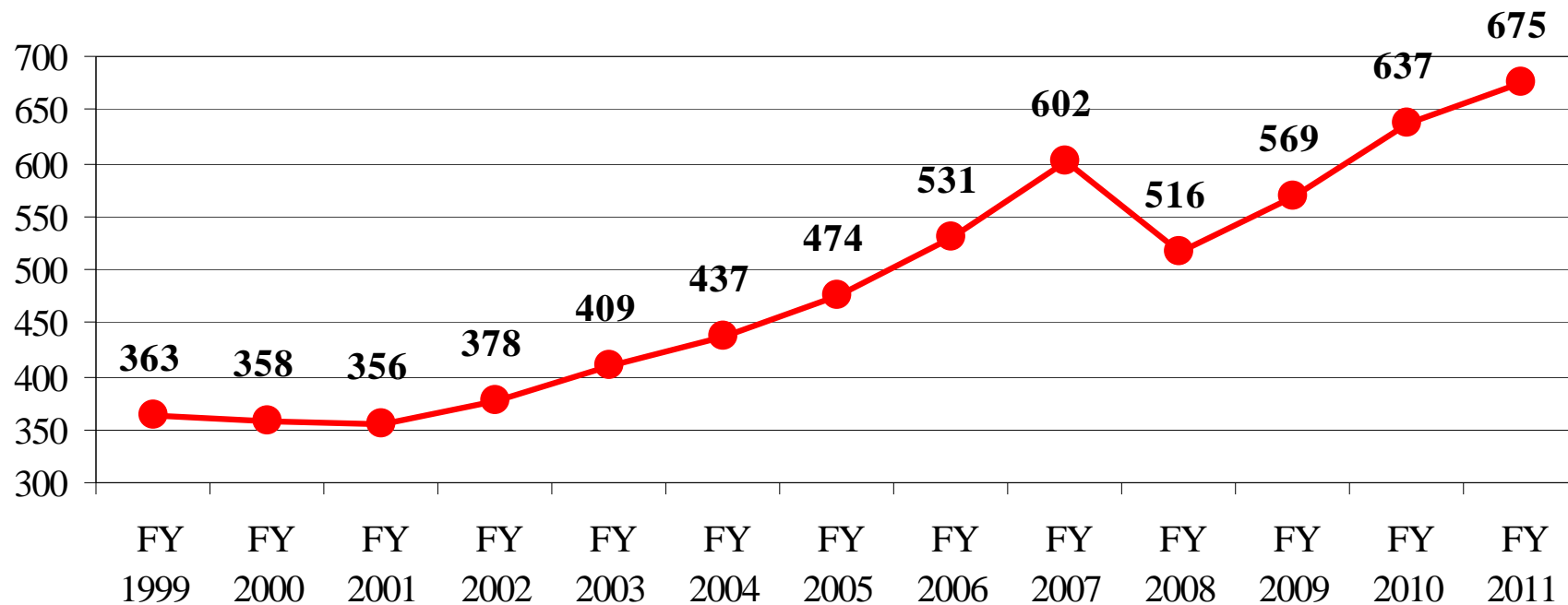
Source, T. Melcher, MN Dept of Education & Senate CRFA based on Nov 08 Fcst

# Special Education Fiscal Policy

## Special Education Cross Subsidies

FYs 1999 - 2011

\$ in Millions



● Source, T. Melcher, MN Dept of Education, based on Nov 08 Fcst

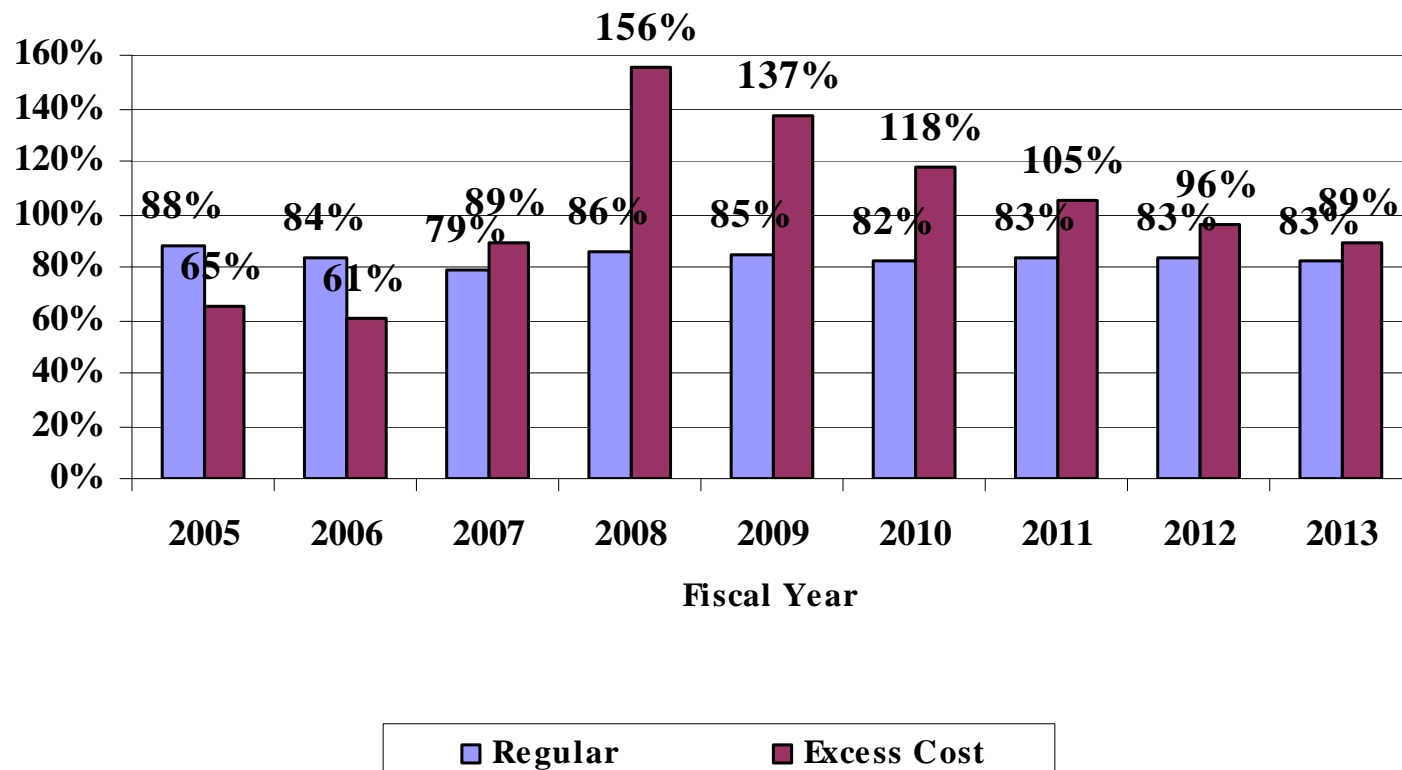
# Special Education Fiscal Policy

- The cross subsidy is due in part to the statutory funding caps on Special Education-Regular Aid and Excess Cost Aid
- The statewide adjustment factor is the ratio of the statutory funding level (“cap”) to the state total adjusted base revenue
- For FY 2009 special education-regular aid:  
 $\$719.5 \text{ Million Cap} / \$847.1 \text{ million adjusted base revenue} = 84.7\%$



# Special Education Fiscal Policy

**State Special Education Funding**  
Statewide Adjustment Factors  
November 2008 Forecast



● Source, T. Melcher, MN Dept of Education

# Special Education Fiscal Policy

## Impact of Caps

- Statewide adjustment factors create a misleading picture of the overall impact of the caps due to the interaction between formulas
- Reduction of Special Education-Regular Aid due to Statewide Cap Increases Gross Excess Cost Aid
- This, in turn, reduces the statewide adjustment factor for excess cost aid
- A more accurate way to assess the overall impact of the caps:

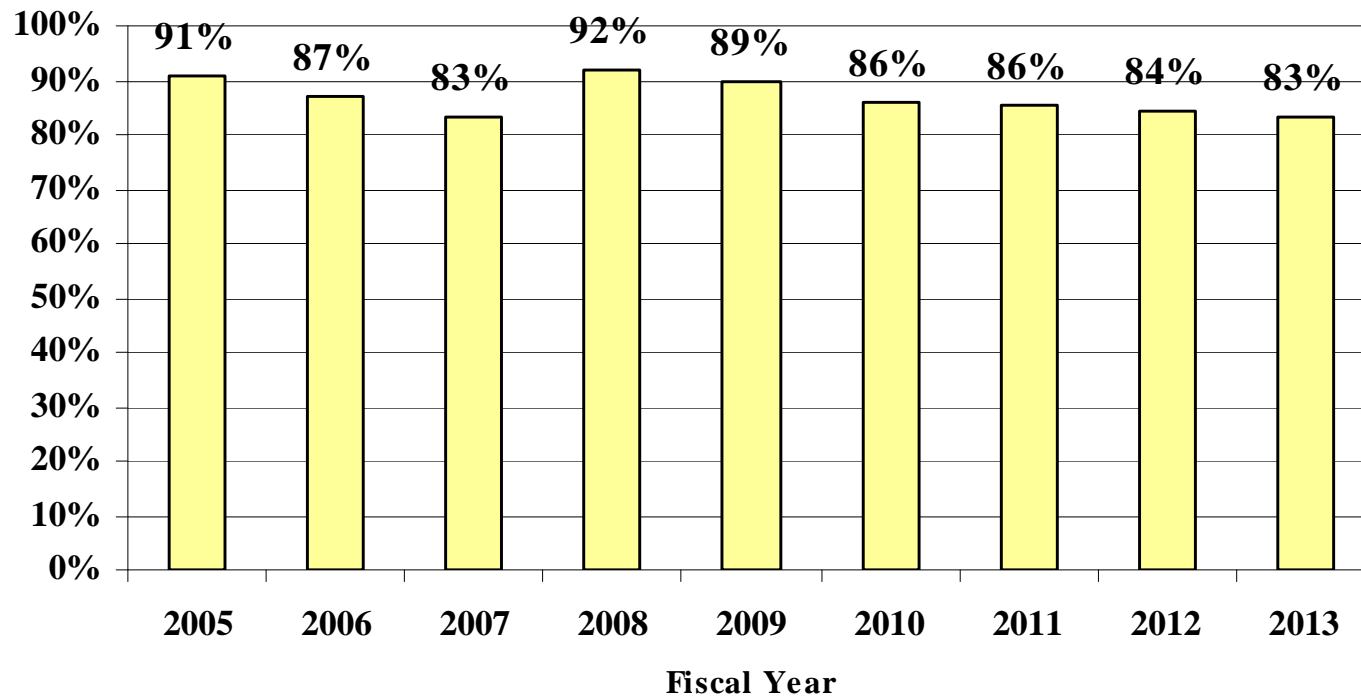
Compare the total capped aid to the sum of what the total special education-regular and excess cost aid would be without any caps

# Special Education Fiscal Policy

## State Special Education Funding

Overall Impact of Caps

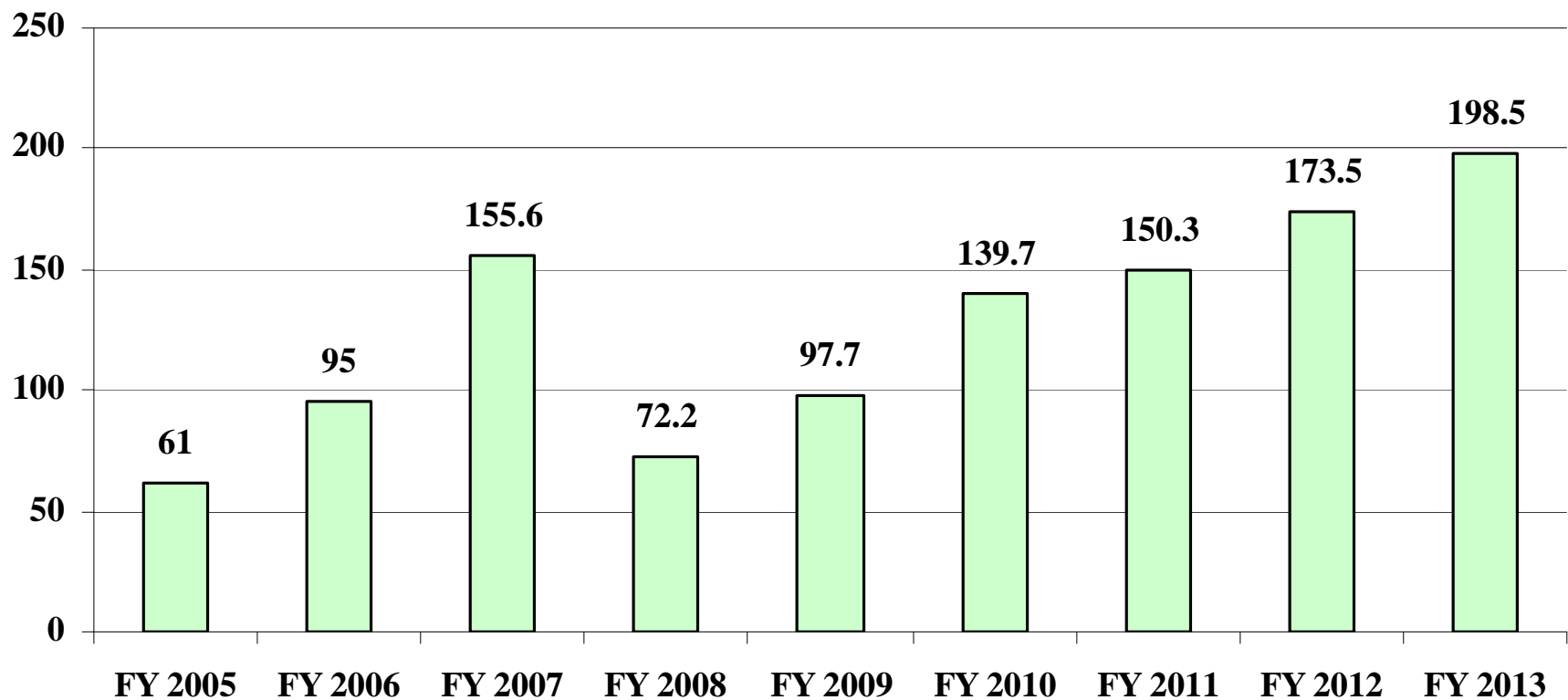
November 2008 Forecast



●Source, T. Melcher, MN Dept of Education

# Special Education Fiscal Policy

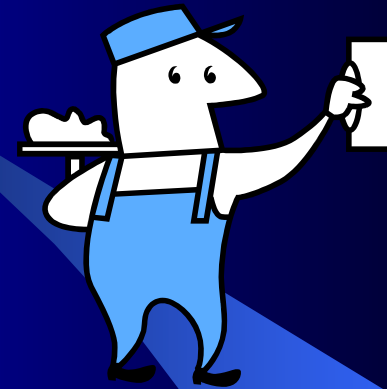
**State Special Education Funding  
Statewide Impact of Caps -- "Cap Gap"  
November 2008 Forecast**



●Source, T. Melcher, MN Dept of Education

# Capital & Facility Programs

- Health & Safety Revenue
- Debt Service Revenue
- Alternative Facilities Bonding Aid
- One-Time Aid
- Deferred Maintenance
- Telecommunications Aid
- Maximum Effort School Aid



# Capital & Facilities Budget

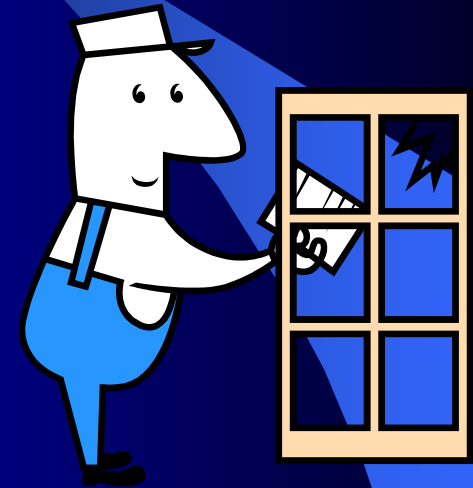
Capital & Facilities Programs  
Based on November 2008 Forecast

<b>Program</b>	<b><u>FY 2008</u></b>	<b><u>FY 2009</u></b>	<b><u>FY 2010</u></b>	<b><u>FY 2011</u></b>
Health & Safety Aid	\$ .2	\$0.1	\$0.2	\$0.2
Debt Service Equalization	14.8	9.1	8.1	7.8
Alternative Facilities Aid	19.3	19.3	19.3	19.3
One-Time	38.2	52.5	0	0
Deferred Maintenance	3.3	2.7	2.3	1.8
Telecommunications Access	7.6	8.7	3.8	3.8
<u>Other One-Time Aid</u>	<u>.2</u>	<u>.2</u>	<u>0</u>	<u>0</u>
<b>Total</b>	<b>83.7</b>	<b>92.4</b>	<b>33.5</b>	<b>32.8</b>

# Health & Safety Revenue

M.S. 123B.57

- An equalized (state aid & local levy) program for districts with building problems related to health & safety
- Districts must submit an application to the Department of Education and only approved projects are eligible for revenue
- H&S projects may not exceed \$500,000 in overall cost per site.



**\$119,000 in FY 09**

# Debt Service Revenue

## M.S. 123B.53

- Used to finance the construction of new school buildings and other capital improvements through the sale of bonds which are mostly repaid with local levy revenue
- Projects must be reviewed and approved by the commissioner
- Debt Service Equalization Aid is the state portion of district debt service revenue, and is based on the property wealth of the district
- First 15% of a district's total debt service is raised locally
- Above 15%, Debt Service Revenue is equalized on two tiers
  - \$3,200
  - \$8,000



**Revenue = \$674 million**  
**Aid = \$9.1 million**  
**Levy = \$644.9 million**  
**in FY 09**



# Alternative Facilities Bonding

M.S. 123B.59

- Certain large school districts that have older building space qualify for this “alternative” to the health and safety program.
- Other non-large districts may utilize this program for H&S eligible programs in excess of \$500,000 per site.
- Allows these districts to issue bonds for health and safety improvements and deferred maintenance projects without voter approval
- The levy used to repay the bonds is eligible for equalization



Revenue = \$75.3 million  
Aid = \$19.3 million  
Levy = \$56 million  
in FY 09

# School Technology and Operating Capital One-Time Aid

- For Fiscal Years 2008 and 2009 only
  - \$40 \* AMCPU in FY 08
  - \$55 \* AMCPU in FY 09
- Aid may only be used for the purposes listed under the operating capital statute 126C.10 subd. 14

# Deferred Maintenance Revenue

M.S. 126C.591

- *New for FY2008*
- Available to all districts not eligible to receive Alternative Facilities Bonding.

Revenue = \$60 \* AMCPU \* (Adjustment of bldg ages newer than 35 yrs)

$$\text{Levy} = \text{revenue} * \left[ \frac{ANTC / AMCPU}{5,900} \right]$$

Aid = (Revenue – Levy) \* (Downward adjust if actual levy is less than permitted)

**May only be used for expenditures eligible under alternative facilities**

**Revenue = \$26.5 million ; Aid = \$2.7 million; Levy = \$23.8 million in FY 09**

# Maximum Effort School Aid

M.S.126C.61 to 126C.72

- Legislative approval is required to authorize a Maximum Effort School Loan
- Available to school districts that are unable to pay back the full amount of their capital loan due to a low property tax base
- The district pays back its portion of the loan by taxing itself at a statutorily determined “maximum effort”
- The State borrows the money and the district pays to the State whatever the “maximum effort” generates
- The remainder of the debt is paid by the state

## Early Childhood Education

<b>Program</b>	<b><u>FY 2008</u></b>	<b><u>FY 2009</u></b>	<b><u>FY 2010</u></b>	<b><u>FY 2011</u></b>
School Readiness	\$10.0	\$10.1	\$10.1	\$10.1
ECFE	21.1	29.5	23.1	22.7
Head Start	20.1	20.1	20.1	20.1
Heath and Dev. Screening	2.6	3.6	3.9	4.0
<u>Other Aids</u>	<u>.3</u>	<u>.4</u>	<u>.3</u>	<u>.3</u>
<b>Total</b>	<b>54.1</b>	<b>63.6</b>	<b>57.4</b>	<b>57.2</b>

## Prevention & Lifelong Learning

<b>Program</b>	<b><u>FY 2008</u></b>	<b><u>FY 2009</u></b>	<b><u>FY 2010</u></b>	<b><u>FY 2011</u></b>
Community Education	\$1.3	\$.8	\$.6	\$.4
ABE	40.3	41.7	42.9	44.2
<u>Other Aids</u>	<u>4.8</u>	<u>4.9</u>	<u>.9</u>	<u>.9</u>
<b>Total</b>	<b>46.4</b>	<b>46.0</b>	<b>44.4</b>	<b>45.6</b>

# School Readiness

M.S. 124D.15

- For children aged three to kindergarten entrance
- All state aid
- If a school readiness program has been approved by the commissioner, a district school readiness aid is calculated using the total number of four-year-olds in the district and the level of poverty in the district

**\$10.1 million in FY 09**

# Early Childhood Family Education (ECFE)

M.S. 124D.13

- For children birth to kindergarten & parents
- Revenue = \$104 \* Number of 5 year-olds
- A district may levy
- Aid = Revenue – Levy
  - If actual levy is less than permitted then aid is reduced proportionally

**\$29.5 million in FY 09**

# Community Education

M.S. 124D.19

- Uses
  - Recreational and leisure time activities
  - ABE programs
  - Summer programs for elementary and secondary students
- Community Education Revenue =  
 $\$5.42 * \text{Population of the district}$
- A district may levy
- Aid = Revenue – Levy
  - If actual levy is less than permitted then aid is reduced proportionally

**Revenue = \$39.1 million; Aid = \$796,000; Levy = \$38.3 million in FY 09**



# Adult Basic Education

M.S. 124D.52

- For people over the age of 16 who do not attend elementary or secondary school
- The program offers academic instruction necessary to earn a high school diploma or equivalency certificate
- State aid must not equal more than 100% of the unreimbursed expenses of providing these programs
- Aid is calculated based on a districts population and contact hours for the students participating in the program

**\$41.7 million in FY 09**

# Where to Get More Information



Senate Counsel, Research and Fiscal Analysis

[http://www.senate.leg.state.mn.us/departments/office\\_bio.php?Is=85&office\\_id=1007](http://www.senate.leg.state.mn.us/departments/office_bio.php?Is=85&office_id=1007)

Department of Education; Division of Program Finance

<http://education.state.mn.us>

Legislative Reference Library, K-12 Education Links to the World

<http://www.leg.state.mn.us/lrl/links/educat.asp>

Department of Finance, Budget Information

<http://www.budget.state.mn.us>

# Where to Get More Information

Continued...



“Financing Education in Minnesota” is published annually by the  
Minnesota House of Representatives Fiscal Analyst Department  
<http://www.house.leg.state.mn.us/fiscal/files/08fined.pdf>

“Minnesota School Finance: A Guide for Legislators” is published by the  
Minnesota House of Representatives Research Department  
<http://www.house.leg.state.mn.us/hrd/pubs/mnschfin.pdf>

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