



Minnesota's E-12 Education Finance System

AMSD Annual Conference

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November 28, 2018

Topics

1) Principles

2) Mechanics

3) Trends

4) Policy Options

- Status of 2012 and 2014 Working Group Recommendations
- Options for the Future

- ***Note: Options are presented for discussion only, and are not official recommendations of the Minnesota Department of Education***

EDUCATION FUNDING PRINCIPLES

Minnesota Constitution Article 13, Section 1 (1858):

...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.

EDUCATION FUNDING PRINCIPLES

Minnesota Supreme Court Decision Skeen v. State of Minnesota (1993):

- ...education is a fundamental right in Minnesota.
- ...our decision ...requires the state to provide enough funds to ensure that each student receives an adequate education and that funds are distributed in a uniform manner...
- ...the determination of education finance policy, in the absence of glaring disparities, must be a legislative decision because it involves balancing the competing interests of equality, efficiency, and limited local control...
- ...the State of Minnesota provides an adequate and uniform education which meets all state standards. It merely allows localities to augment this basic amount...

EDUCATION FUNDING PRINCIPLES

Adequacy and Equity for Students:

- Ensure that all local education agencies have the resources needed to provide an adequate basic education for all students, regardless of geographic location:
 - Basic formula covers the cost of providing an adequate basic education for students without special needs.
 - Other general education formulas and categoricals provide additional funding for excess costs:
 - high-need students
 - unique district characteristics

EDUCATION FUNDING PRINCIPLES

Equity for Taxpayers:

- Tax burden to provide adequate basic funding (through basic formula) is uniform throughout the state, regardless of local tax base. This can be accomplished with either:
 - A mix of state funding and a uniform local property tax levy (1950s – 2002); or
 - full state funding (since 2003)
- Additional revenue to supplement basic programs is equally available to all districts, regardless of geographic location or local tax base (state aid or equalized levy).

EDUCATION FUNDING PRINCIPLES

Stability, transparency, efficiency and effectiveness:

- Provides stable, predictable and sustainable revenues over time;
- Allocates resources through understandable statewide formulas that are rationally related to educational need and minimize burdensome paperwork;
- Provides incentives and flexibility for local education agencies to increase achievement for all and close achievement gaps in an efficient and effective manner.

MECHANICS

General Overview

- The Minnesota Constitution makes the state legislature responsible for education funding.
- Federal funding covers only a small portion of school costs; most school funding is state and local.
- Funding levels and the mix of state aid and local levies are determined by state legislation. Most state budget decisions are made in the omnibus education and tax bills enacted in the odd-numbers years. Supplemental budget adjustments are made in the even-numbers years.
- Funding streams may be all state aid, a mix of aid and levy, or all local levy. Most school levies are “equalized” by the state based on the district’s property valuation per student: the lower the property valuation per student, the higher the state share of funding.

MECHANICS

General Overview

- Most funding is allocated based on the number of students served by the school district or charter school, and the characteristics of those students. Some funding is allocated based on approved expenditures or other factors.
- Each school district and charter school's funding per student is different, depending on student and district characteristics.
- Some school funding is “unrestricted” and can be used for any educational purpose, while other funding is “restricted” and can only be used for specific purposes stated in law. Restricted funding is generally referred to as “categorical”.

MECHANICS

General Overview

- Local school boards have authority to certify most school property tax levies without voter approval. Voter approval is required to raise additional revenues through an operating referendum, bond referendum, or capital projects referendum.
- Most school levies are spread based on Adjusted Net Tax Capacity (ANTC)
 - All taxable property pays a share
 - Class rates are used for different use classes: Agricultural land has lower class rates than residential homesteads, and commercial and industrial property has higher class rates than residential homesteads
- Operating referendum and Local Optional levies are spread on Referendum Market Value (RMV)
 - Agricultural land and seasonal recreational cabin property are exempt
 - No class rates are used

MECHANICS

Student-Driven Funding

- **Most funding is allocated based on the number of students served by a school district or charter school during the current school year**
- **Adjusted Pupil Units (APU)** is the primary student count. It is are calculated as follows:
 - **APU = Average Daily Membership (ADM) Served x Grade Level Weight**
 - **Where:**
 - **ADM = the average number of pupils enrolled in the school district throughout the school year. (Regular ADM is limited to 1.0 for each student).**
 - **Grade Level Weights = 1.0 for Kindergarten-Grade 6 and 1.2 for Grades 7 – 12**

MECHANICS

Student-Driven Funding

Examples of funding based on pupil units include:

- Basic general education revenue = \$6,312 X APU
- Local Optional Revenue = \$424 x APU
- Operating Referendum Revenue = Approved Allowance x APU
- Safe schools levy = \$36 x APU
- Gifted & Talented Revenue = \$13 x APU

MECHANICS

Student-Driven Funding

Other student counts used for school funding include:

- **Extended Time ADM** - (Students served more than full-time in a learning year program) – limited to 0.2 ADM per student; used only for extended time revenue.
- **English Learner (EL) ADM** – Used to calculate EL Revenue
- **Compensation Revenue Pupil Units** – Concentration of students enrolled on October 1 of the prior school year & eligible for free or reduced price lunches drives Compensatory Revenue
- **Special Education Child Count (Prior Year)** - drives a portion of initial special education aid
- **Protected Student (Students of Color and American Indian students) Concentration (Prior Year)** - drives eligibility and funding for Achievement and Integration Revenue
- **American Indian Enrollment (Prior Year)** – drives American Indian Education Aid.
- **October 1 Enrollment (Prior Year)** – Drives Q Comp Funding

MECHANICS

Expenditure-Driven Funding

Approved Expenditures is another factor driving school funding.

- **Some funding is directly tied to expenditures:**
 - Debt Service Levies
 - Other Post Employment Benefit Levies
 - Career and Technical Education Revenue
 - Pension Adjustment Aid
 - School Age Care Levy
 - Reemployment Insurance Levy

MECHANICS

Other Factors Driving Funding

Examples of other factors driving school funding:

- School building age [Operating Capital, Long-Term Facilities Maintenance (LTFM)]
- Population density (Transportation Sparsity)
- Distance to nearest school (Sparsity)
- Total Population (Community Education)

MECHANICS

Multiple Factors Driving Funding

Some funding is based on a combination of factors. The following programs are funded using a mix of expenditure data and student data:

- Special Education Aid
- LTFM Revenue
- Achievement and Integration Revenue
- Charter School Lease Aid
- Building Lease Levies

MECHANICS

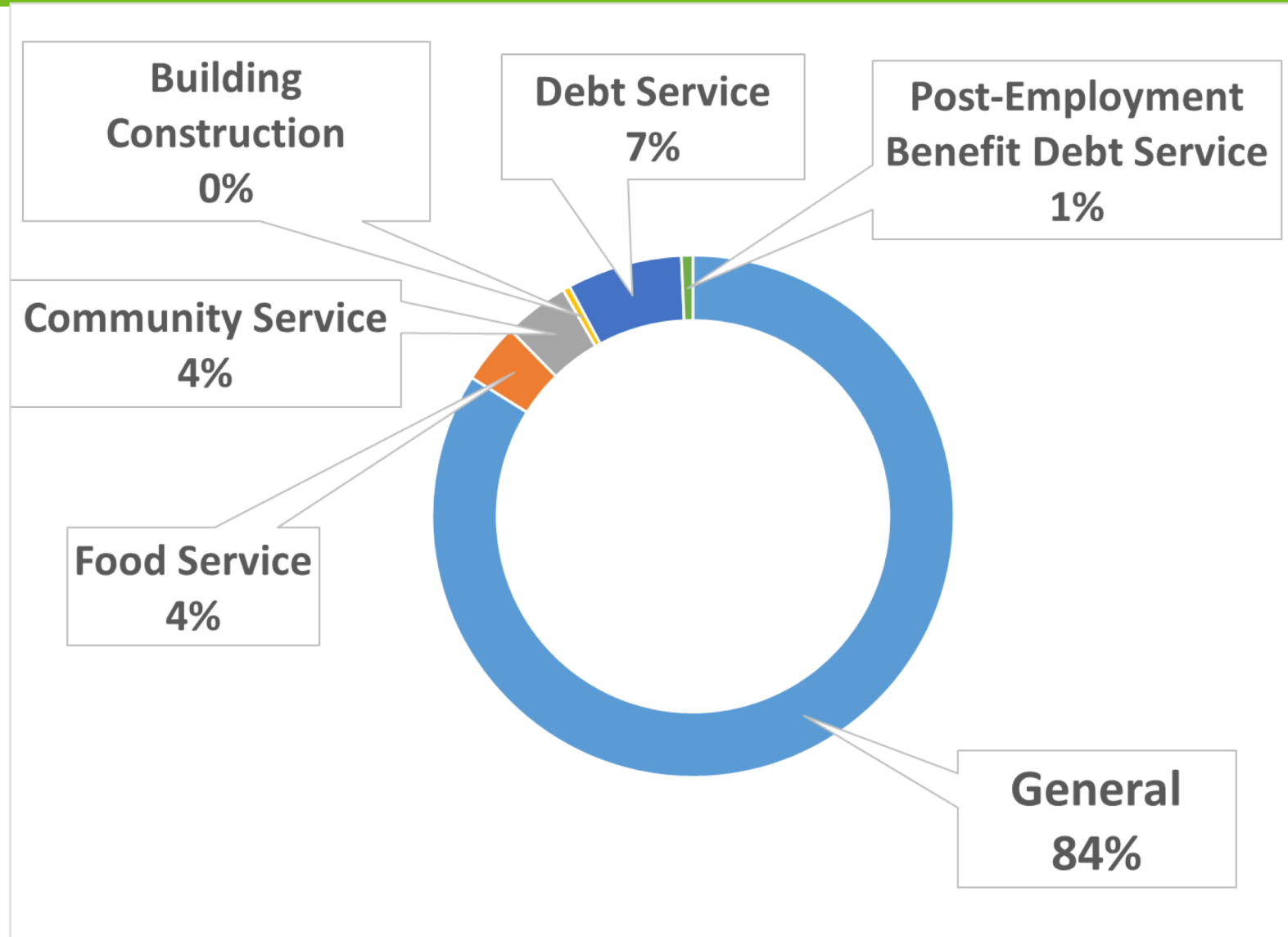
School Accounting

Since 1977, school accounting in Minnesota has been based on the Uniform Financial Accounting and Reporting Standards (UFARS):

- **Modified Accrual Basis of Accounting**
 - Revenues are recognized when they are both measurable and available.
 - Expenditures are recorded when they are incurred, on a full accrual basis
- **Expenditure and revenue accounting is multi-dimensional, including Fund, Site, Program, Finance, Object / Source, and Course.**
- **School district revenues, expenditures and fund balances are segregated by Fund. Funds include:**
 - Operating Funds: General, Food Service, Community Service
 - Non-Operating Funds: Building Construction, Debt Service, Post-Employment Benefits Debt Service

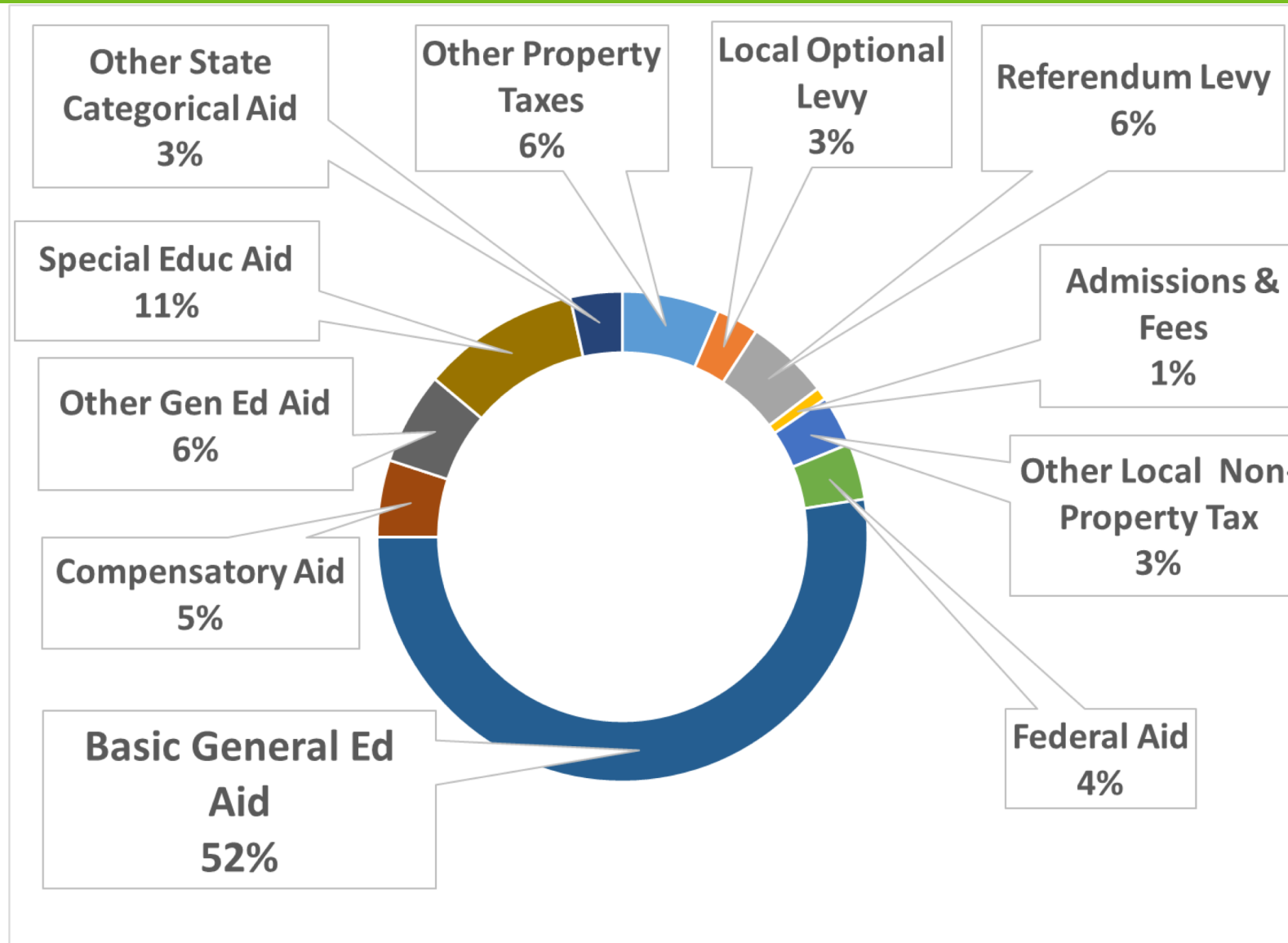
SCHOOL DISTRICT AND CHARTER SCHOOL REVENUE BY FUND

FY 2017: \$12.842 Billion



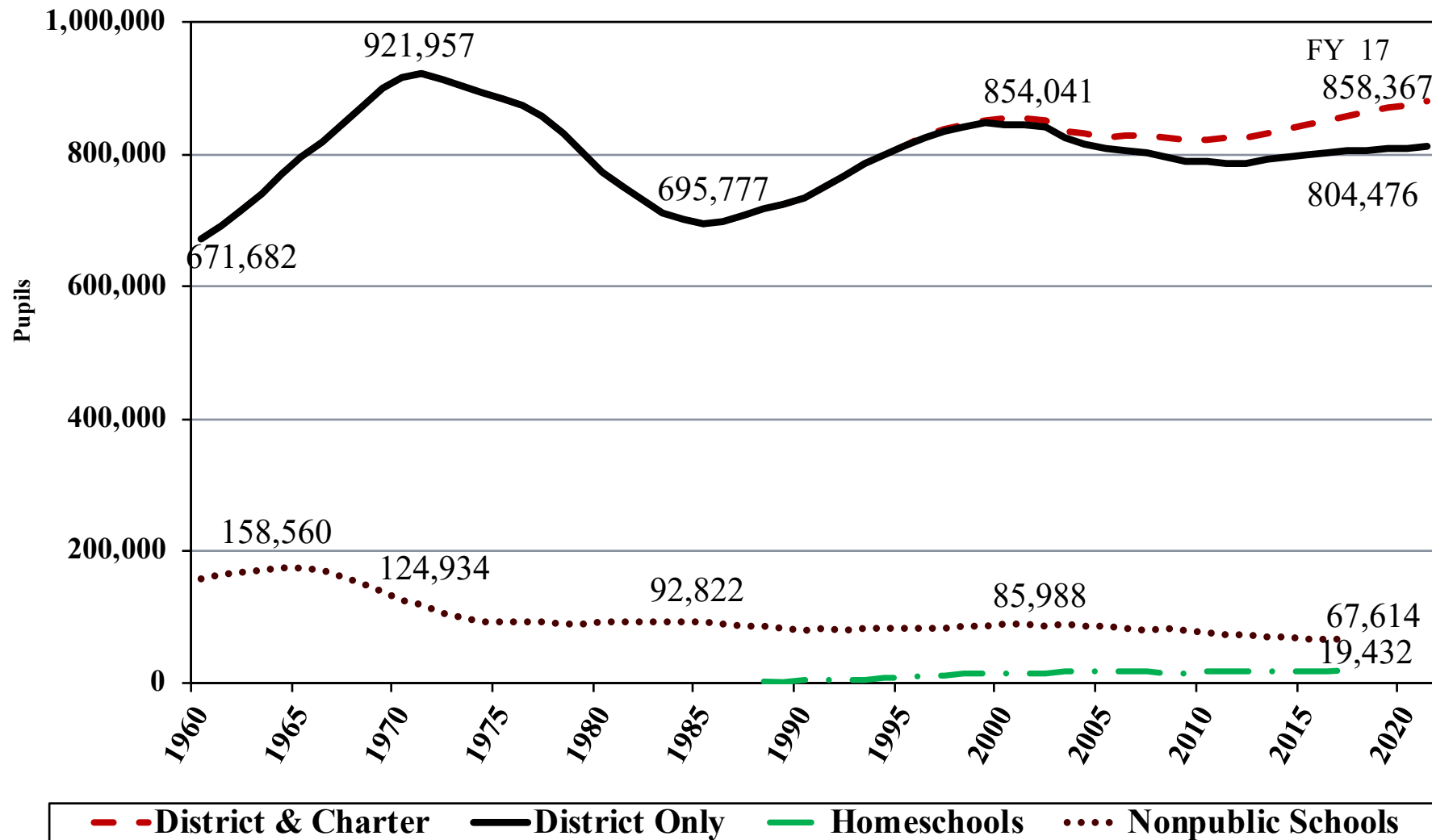
SCHOOL DISTRICT AND CHARTER SCHOOL GENERAL FUND REVENUE

FY 2017: \$10.775 Billion

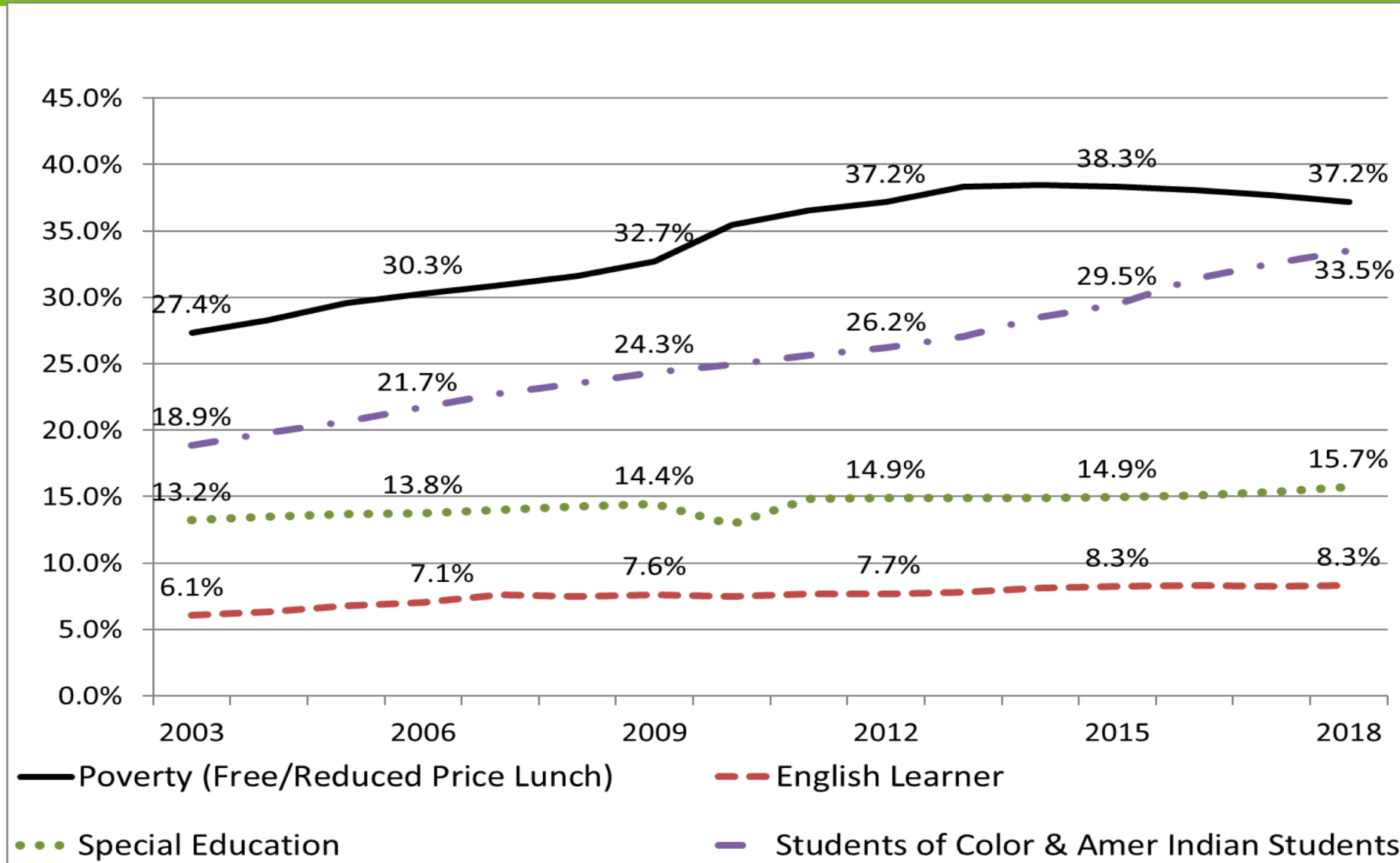


TRENDS

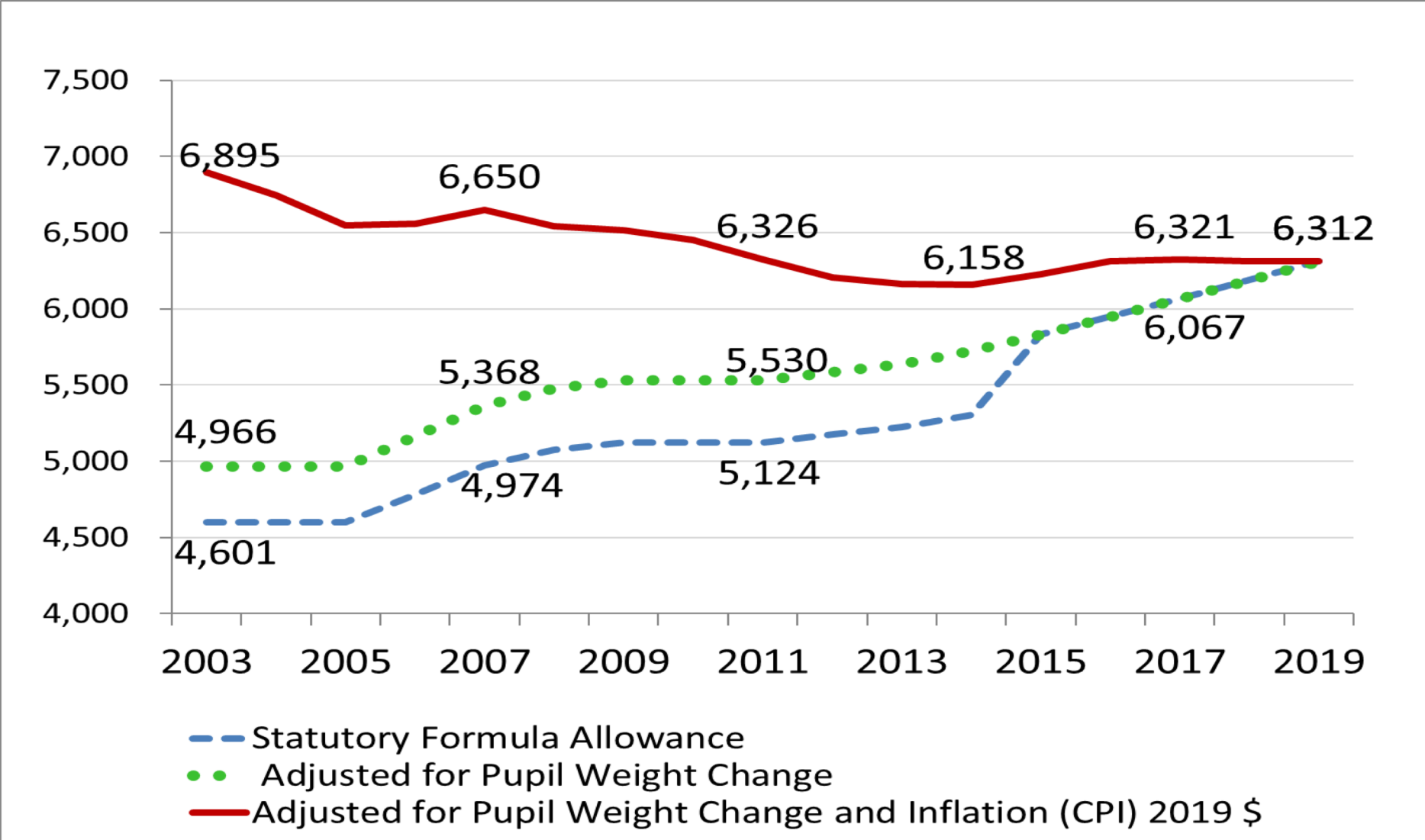
State Total Enrollment, 1960 to 2021



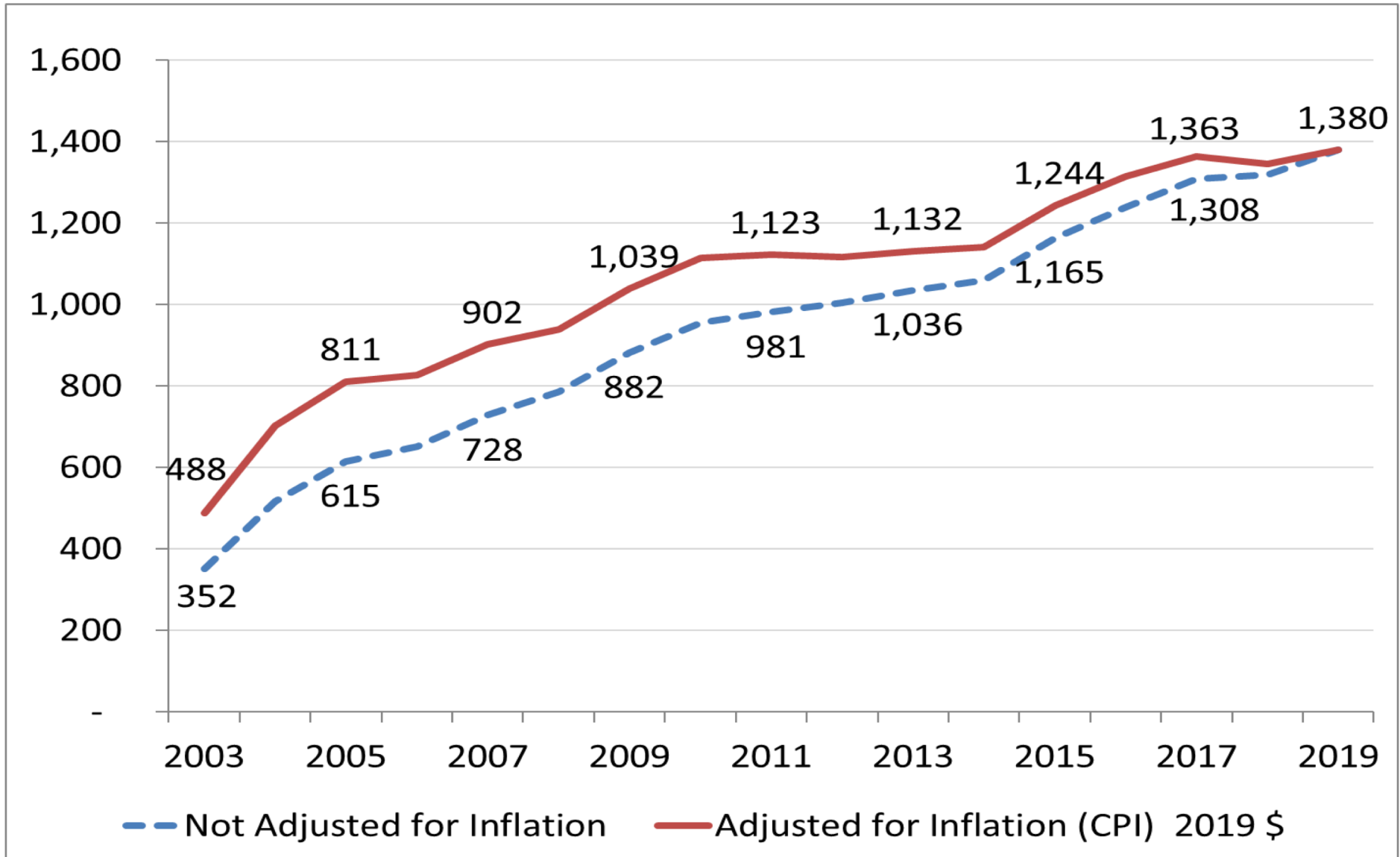
Special Populations as Percent of Total Public School Enrollment 2003 – 2018



General Ed Formula Adjusted for Pupil Weight Change and Inflation (CPI) 2018 End of Session

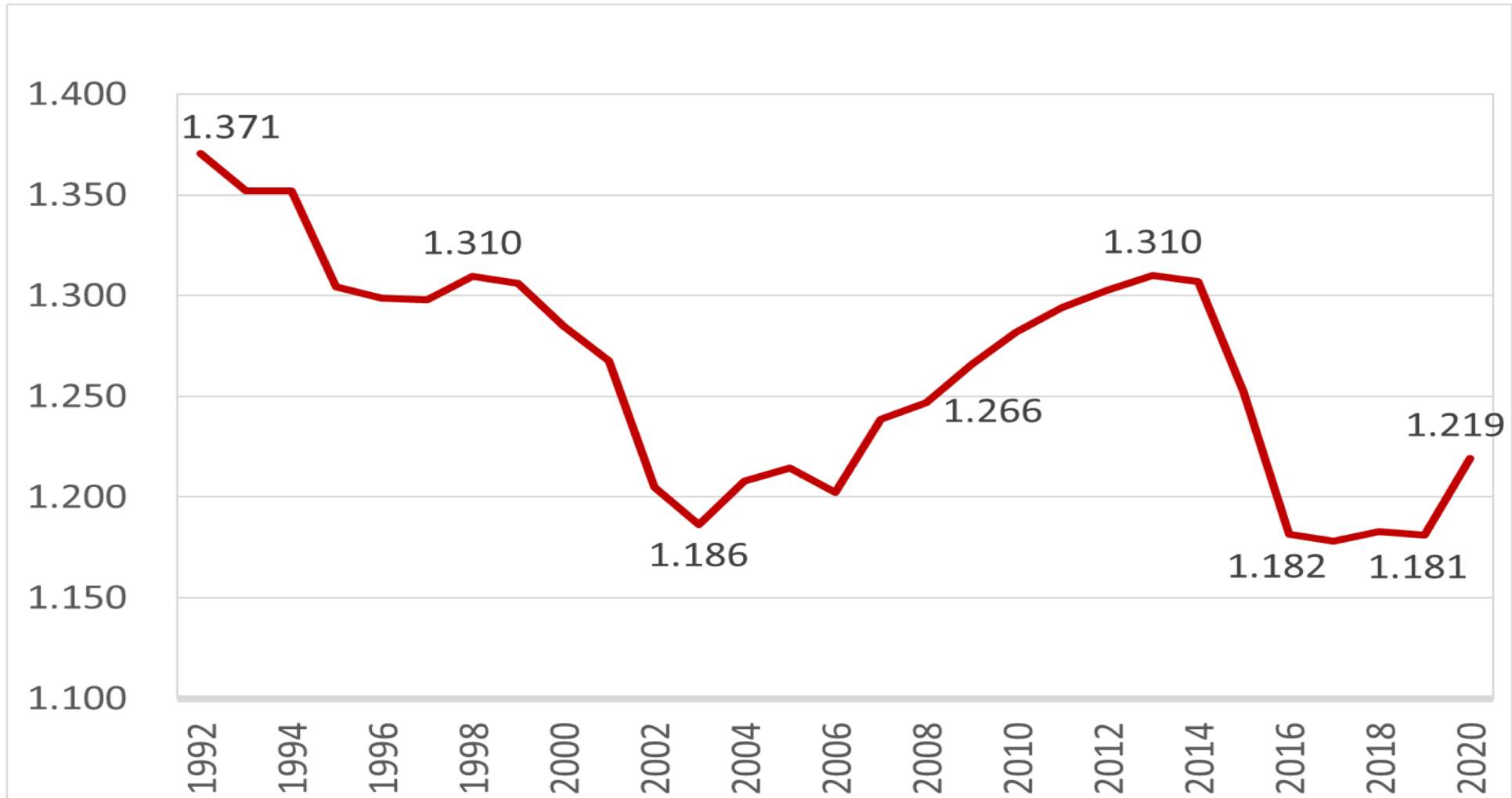


Referendum and Local Optional Revenue per Student 2018 End of Session

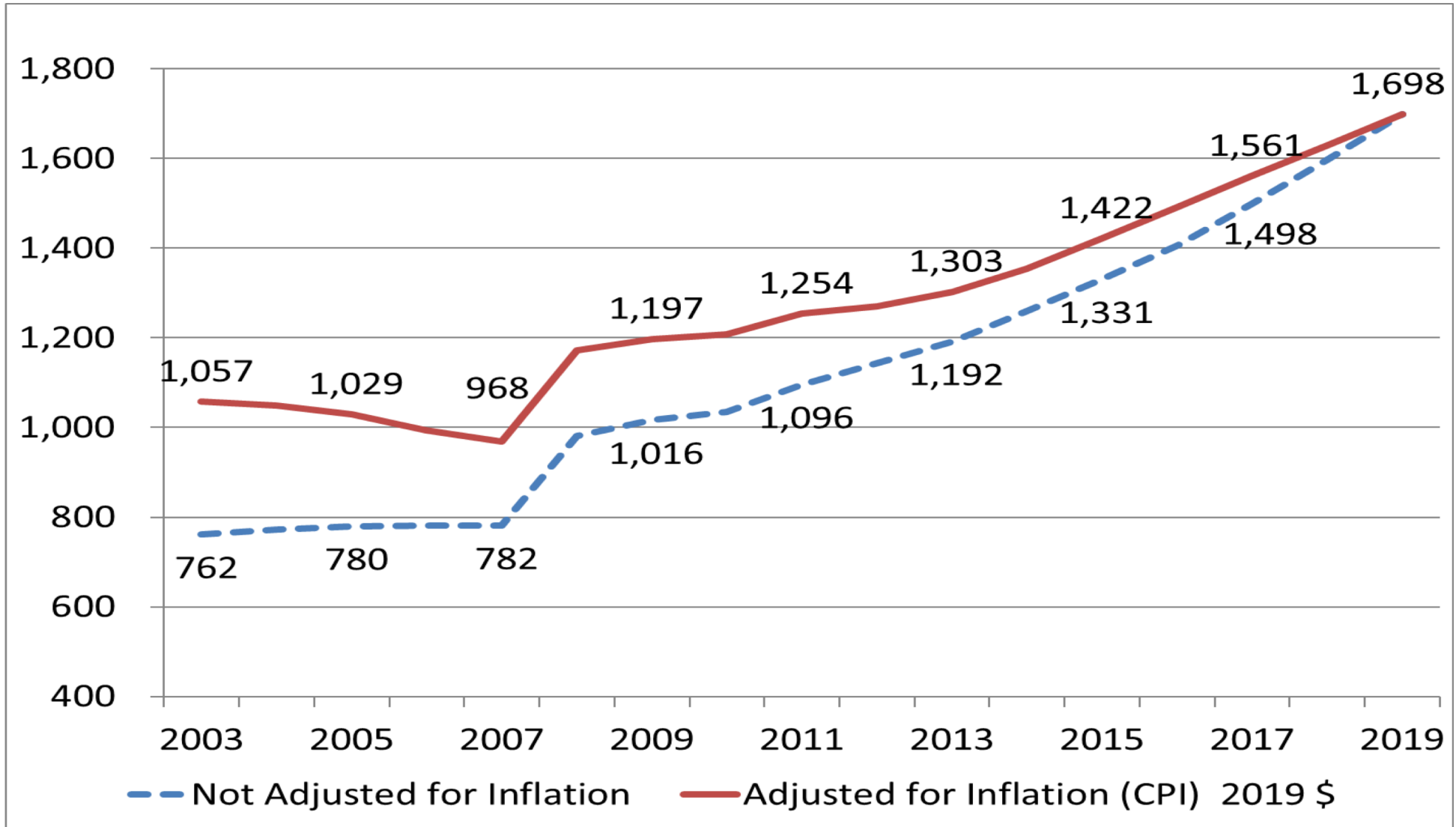


Disparity in Unrestricted General Revenue per Student

95th to 5th Percentile Ratio, November 2018 Forecast

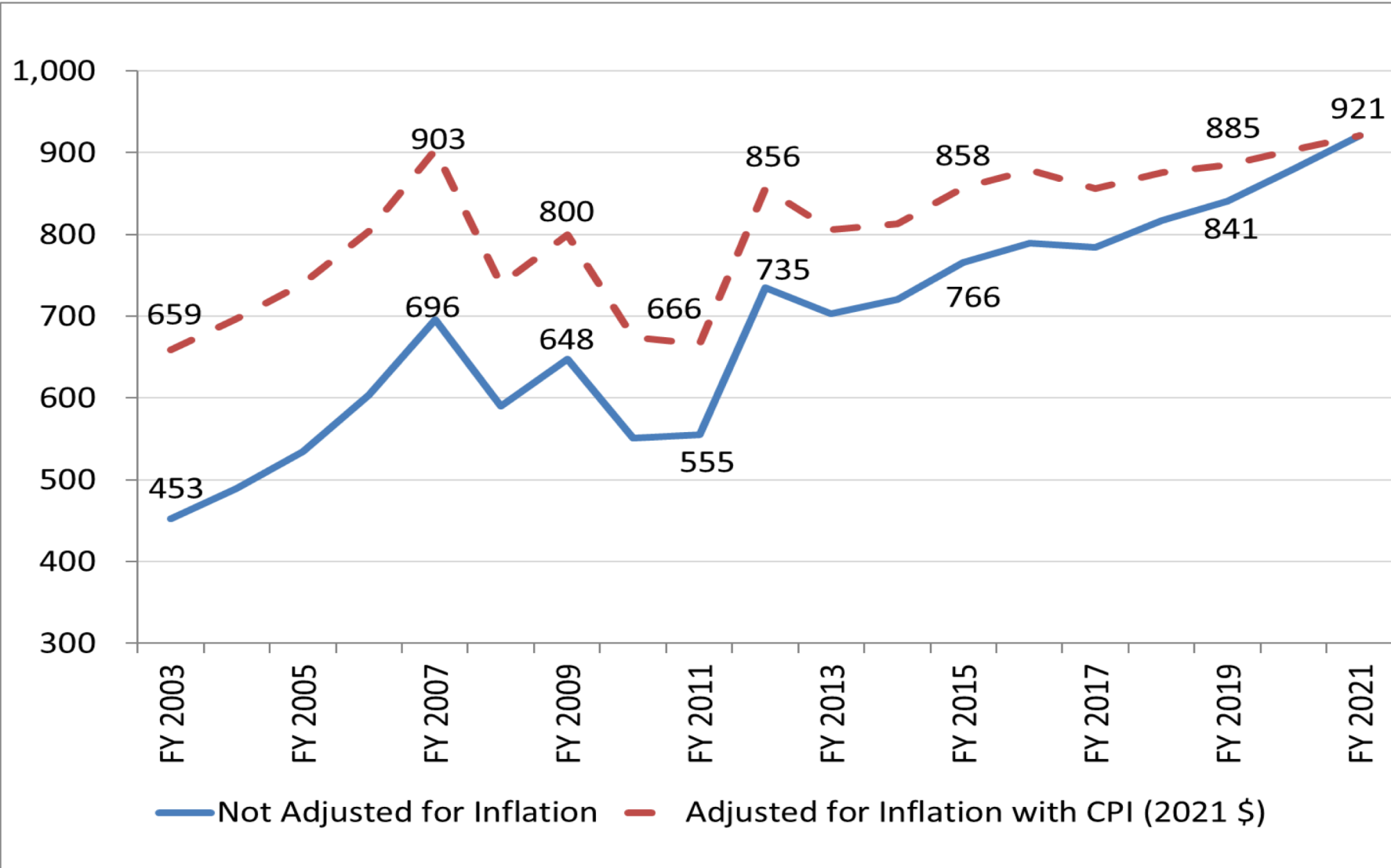


State Special Education Aid per Student 2018 End of Session



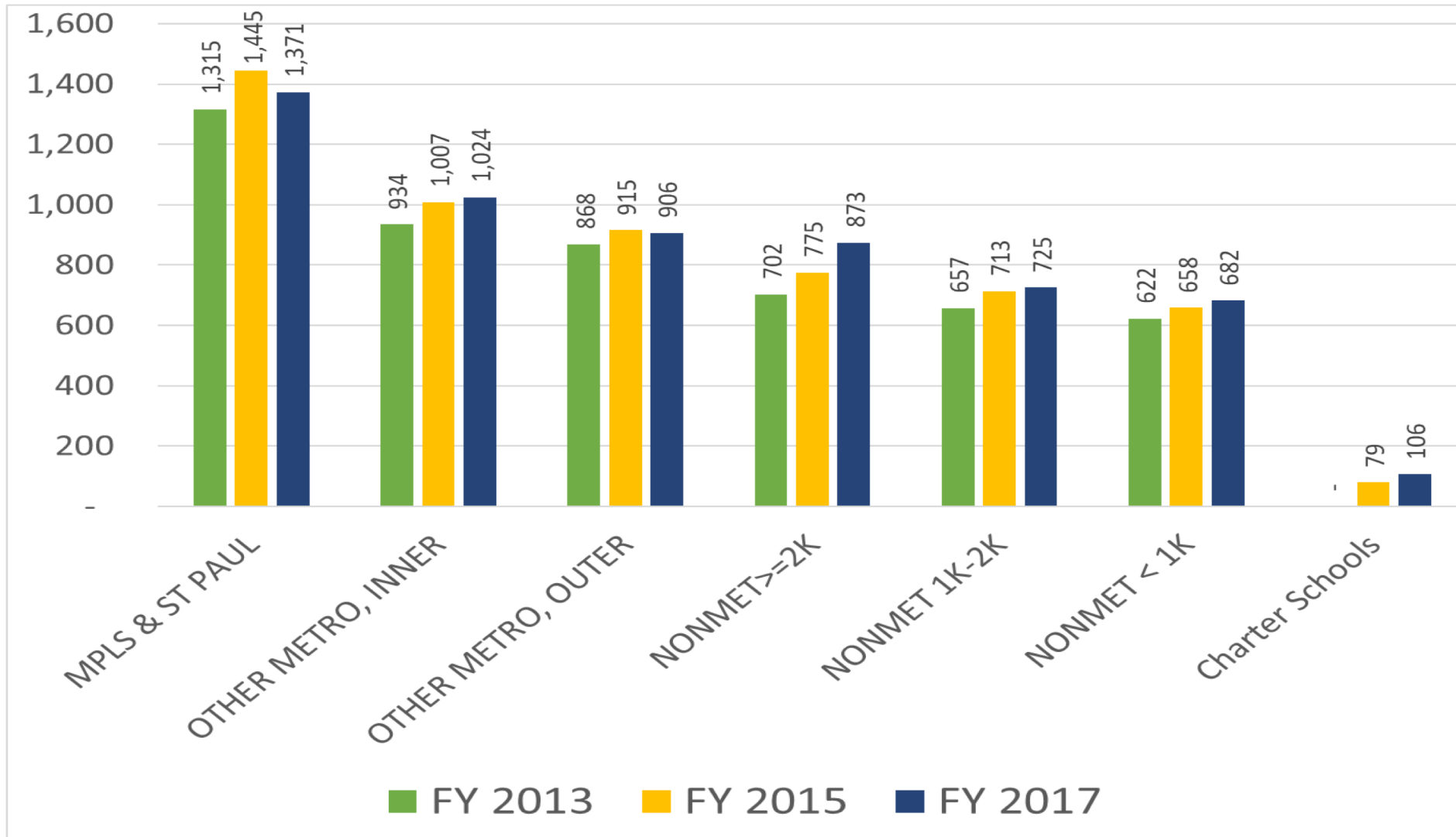
Special Education Cross Subsidy (Unfunded Cost) per Student

2018 End of Session



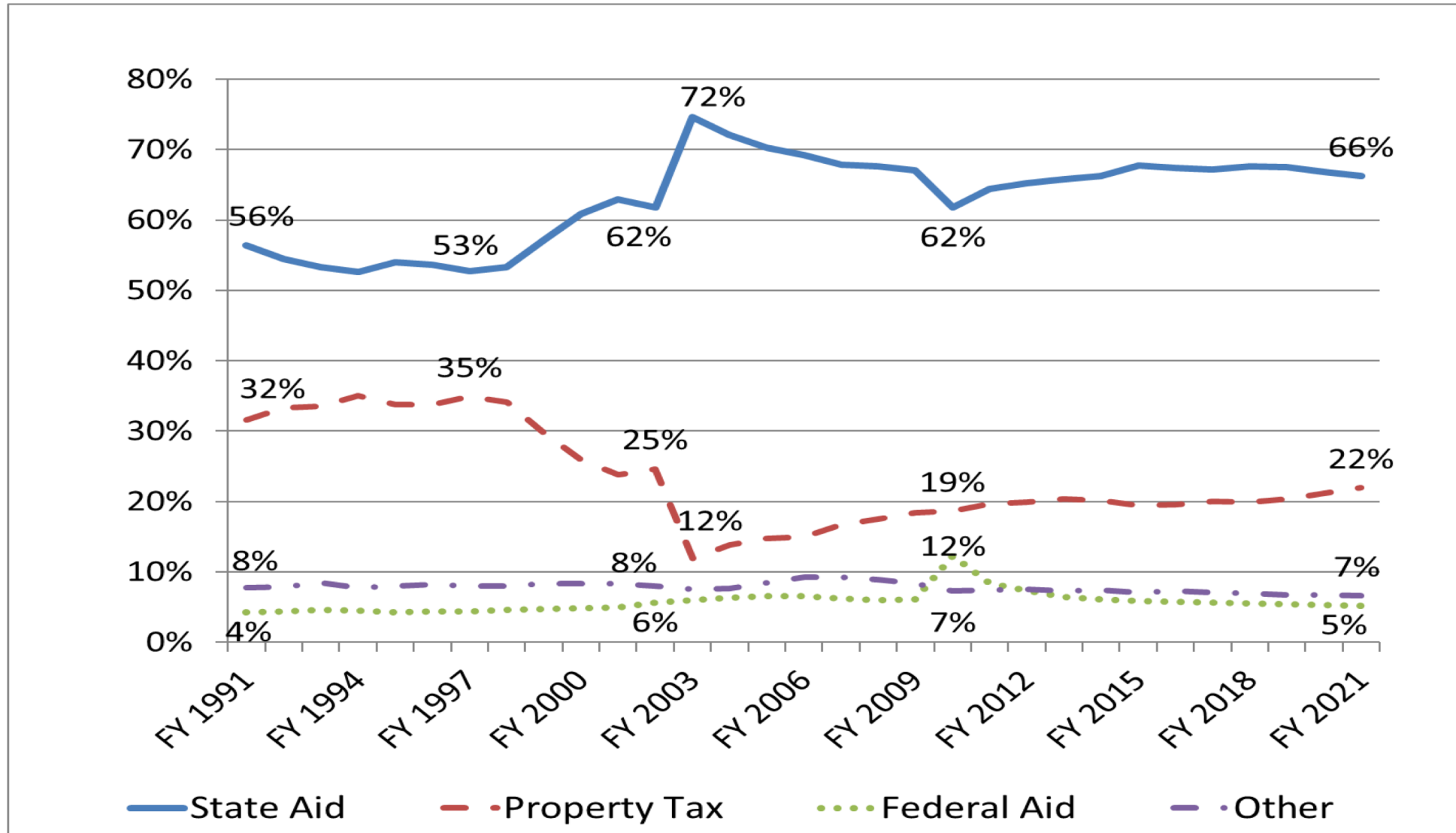
SPECIAL EDUCATION CROSS SUBSIDY PER ADM

by District Type, FY 2013, FY 2015, and FY 2017 Adjusted for Inflation (FY 2019 \$)

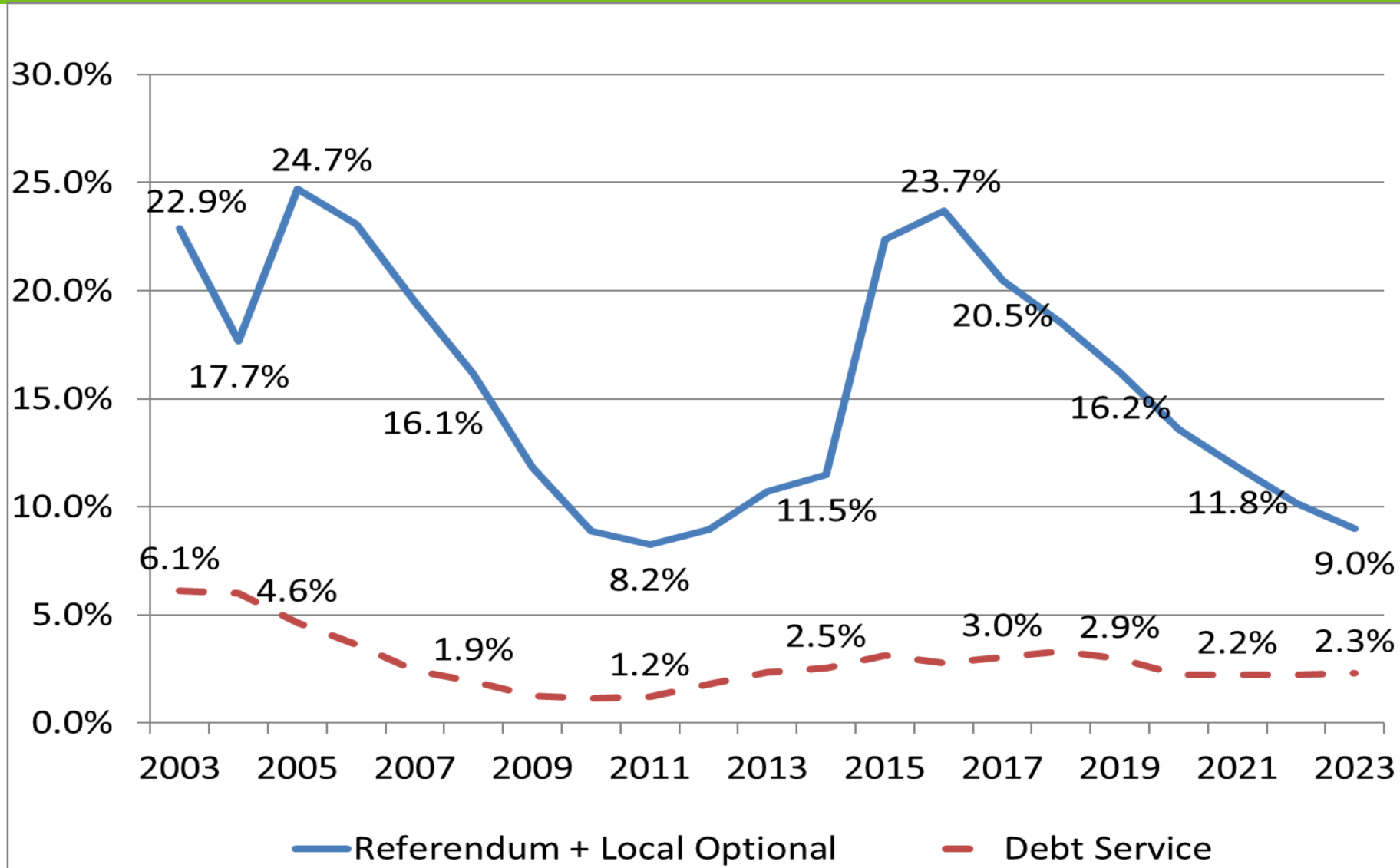


E-12 Education Revenue by Source

2018 End of Session



State Share of Referendum + Local Optional and Debt Revenue November 2018 Forecast



POLICY OPTIONS

Status of 2012 Working Group Recommendations General Education Formula Allowance

Working Group Recommendation

- Restore inflation-adjusted general education formula to FY 2003 level
- (Based on CPI as the measure of inflation)

Legislation Enacted

- Formula allowance increased by 1.5% for FY 2014 and by 2% per year for FY 2015 – FY 2019
- These increases slightly exceeded the rate of inflation.
- As a result, the formula allowance for FY 2019 is \$617 below the inflation-adjusted FY 2003 formula, compared with \$741 below in FY 2014

Pupil Units

Working Group Recommendation

- 1.0 weight for grades 1-6, 1.2 weight for grades 7-12; formula allowance adjusted to neutralize revenue impact.
- 1.0 weight for all day kindergarten for students eligible for free or reduced-price lunch as first step to funding all-day K for all.
- Replace marginal cost PU with separate declining enrollment revenue

2013 Legislation Enacted

- Same
- 1.0 weight for all day kindergarten for all. All day kindergarten is optional.
- Same

Referendum Revenue

Working Group Recommendation

- Convert from allowance per resident marginal cost pupil unit to allowance per adjusted pupil unit; eliminate separate alternative attendance adjustment; adjust allowances to neutralize revenue impact.
- Roll \$300 of referendum allowance into basic formula and reduce referendum cap by \$300

Legislation Enacted

- Same
- Allowing school districts to access \$300 /PU of referendum revenue by board action has similar effect

Location Equity / Local Optional Revenue

Working Group Recommendation

- If a district has referendum revenue remaining after \$300 roll-in, \$400/PU for a metro district or \$200 for a non-metro district with > 2,000 ADM is converted to location equity revenue
- No new revenue without an election; just conversion of existing authority to board-approved
- Offsetting reduction to referendum grandfather cap
- Location equity revenue is ongoing and board-approved.

Legislation Enacted

- 2013 legislature enacted \$424 /PU of location equity revenue for metro districts and \$212 / PU for non-metro districts with > 2,000 ADM, regardless of existing referendum allowance, deducted from existing referendum allowance
- 2014 legislature changed this to \$424 / PU of local optional revenue for all districts.
- Local optional revenue is ongoing and board-approved.

Uniform General Education Levy

Working Group Recommendation

- \$478 million uniform general education levy; (\$293 million on RMV and \$185 million on ANTC); offset by elimination of operating capital, integration, safe schools and transition levies and reduction of referendum and equity levies.

Legislation Enacted

- \$20 million uniform general education levy called “Student Achievement Levy;” offset by reduction in Operating Capital Levy.
- Reduced to \$10 million for FY 18 and eliminated for FY 19 and later.

Levy Equalization

Working Group Recommendation

- Equalizing factors for referendum, debt service and deferred maintenance levies increased and indexed to state average tax base.

Legislation Enacted

- Equalization increased for first \$300 of referendum levy per pupil unit; no indexing.

Pension Adjustment

Working Group Recommendation

- Eliminate negative adjustments tied to 1997 reduction in TRA employer contribution rate; positive adjustment for districts with below average gain from elimination of negative adjustment.

Legislation Enacted

- Same

Compensatory Revenue

Working Group Recommendation

- Roll compensatory pilot grants into regular compensatory formula.
- Increase flexibility from 5% to 15% of revenue.

Legislation Enacted

- Grants retained through FY 17 and increased by \$5 million per year; rolled into regular compensatory revenue as fixed grandfather amount beginning in FY 18.
- Flexibility increased to 50%
- Districts required to set aside a portion of compensatory revenue for extended time activities (1.7 % for FY 18, 3.5 % for FY 19; for later years, the percentage is increased by the percent change in the formula allowance)

Other General Education Revenue

Working Group Recommendation

- **English Learner Revenue:** Extend eligibility from 5 to 7 years.
- **Equity Revenue:** Roll the uniform \$50 /PU portion into basic formula; simplify the remainder using a statewide sliding scale formula.
- **Gifted & Talented Revenue:** Roll into basic formula; eliminate reserve account.

Legislation Enacted

- **English Learner Revenue:** Same
- **Equity Revenue:** Proposals not adopted, but metro and rural formulas aligned by adding 25% increase factor to rural formula.
- **Gifted & Talented Revenue:** No change.

Special Education Aid

Working Group Recommendation

1. Increase aid by \$150 - \$200 million per year to reduce cross subsidies.
2. *Initial Aid:* Replace existing formula with a census-based formula for high incidence/lower cost disabilities and a weighted pupil formula for low incidence/higher cost disabilities.

Legislation Enacted

1. Aid increased by \$40 million in current biennium and \$80 million in next biennium.
2. *Initial aid:* Compromise between old formula and working group recommendation to avoid winners and losers given smaller increase in total aid.

Special Education Aid

(Continued)

Working Group Recommendation

3. *Excess Cost Aid*: Modify excess cost formula to include all special education costs, including fringe benefits.
4. *Tuition billing*: Require serving districts or charter to cover 10% of unfunded costs for open enrolled students.

Legislation Enacted

3. *Excess Cost Aid*: Compromise between working group proposal and old formula.
4. *Tuition billing*: Same as working group.
5. Hold Harmless and Growth cap added.

Achievement & Integration Revenue

Working Group Recommendation

- Reinstate funding and allocate based on sliding scale: $\$500 \times \text{PU} \times$ percent protected students, with partial hold harmless; 100% state aid.
- Clarify uses of revenue.

Legislation Enacted

- Reinstate funding and allocate based on sliding scale; $\$350 \times \text{PU} \times$ percent protected students, with partial hold harmless, plus $\$10 \times \text{PU}$ incentive revenue; 70% aid, 30% levy.
- Oversight increased; uses delineated.

Status of 2014 Facilities Working Group Recommendations

Long-Term Facilities Maintenance (LTFM) Revenue

Working Group Recommendation

- Replace the health & safety, alternative facilities and deferred maintenance programs with a new LTFM program
- LTFM allowances phased in: \$300 for FY 17, \$400 for FY 18, \$500 for FY 19, no per pupil limit for FY 20 and later

Legislation Enacted

- Same
- LTFM allowances phased in: \$193 for FY 17, \$292 for FY 18, \$380 for FY 19 and later

Long-Term Facilities Maintenance (LTFM) Revenue Levy Equalization

Working Group Recommendation

- LTFM levy equalized at 125% of state average ANTC / PU
- Equalized revenue limited to the per pupil allowance for districts not previously included in the alternative facilities program

Legislation Enacted

- LTFM levy equalized at 123% of state average ag-modified ANTC / PU (50% of agricultural land value excluded in calculating ANTC /PU for equalization purposes)
- Same

Debt Service Equalization

Working Group Recommendation

- Reduce the threshold to qualify for debt service equalization from 15.74% to 10% of ANTC
- Replace the two-tiered equalization formula with a single tier, equalized at 125% of the state average ANTC / PU
- Provide enhanced debt service equalization for districts with a natural disaster, a consolidation requiring facilities changes, or a debt service tax rate over 30% of ANTC

Legislation Enacted

- Not adopted
- Two-tiered equalization formula retained but indexed to state average ANTC / PU (55.33% of state average for Tier 1 and 100% of state average for tier 2)
- Adopted for districts with a natural disaster

Other Facilities Working Group Recommendations

Working Group Recommendation

- Raise threshold for review & comment to \$2 million and simplify process
- Equalize the building lease levy, increase the allowance to \$180, and expand uses to include school safety/security and remodeling of existing space

Legislation Enacted

- Same
- Allowance increased to \$212; no equalization or expanded uses

Other Facilities Working Group Recommendations

Working Group Recommendation

- Equalize capital projects referendum levy
- Increase Operating Capital allowance and index equalizing factor to state average ANTC / PU

Legislation Enacted

- Not adopted
- Not adopted

OPTIONS FOR THE FUTURE

General Education Revenue

Recap of Current Status

- The inflation-adjusted formula allowance declined by \$617 or 8.9% between FY 2003 and FY 2019.
- School districts have offset the reduction in the inflation-adjusted formula allowance with referendum and local optional revenue (LOR), some more successfully than others.
- Reliance on referendum and LOR to fund basic education costs:
 - creates inequities for students and taxpayers that would not exist if the formula allowance had been increased by enough to cover inflation, and
 - makes the school finance system much more complicated.

General Education Revenue

Where Do We Go From Here?

Consideration should be given to a two-part strategy:

First, keep things from getting worse:

- Maintain the buying power of the basic formula by increasing the formula allowance for FY 2020 and later by enough to cover inflation (about 2.4% per year); and
- Maintain the current state share of referendum and LOR funding by indexing the equalizing factors to the state average RMV / PU

General Education Revenue

Where Do We Go From Here?

Second, make the following changes to improve adequacy and equity, and simplify education funding:

- Restore the Basic formula to the inflation-adjusted FY 2003 level by rolling LOR (\$424/PU) and at least \$200 of referendum revenue into the formula;
- Restore the state share of referendum and LOR funding to the FY 2016 level by increasing as well as indexing the equalizing factors used for referendum and LOR equalization to make up the ground lost to inflation since 2016; and
- Neutralize the statewide levy impact of these changes, and create a vehicle for maintaining the state and local shares of the basic formula in the long-term, by re-establishing the uniform general education levy, which would be based on RMV.

General Education Revenue

Where Do We Go From Here?

In addition to the major changes outlined above, consider making a few minor changes that would also improve equity and simplify education funding, with very little cost:

- Simplify pupil unit calculations by calculating pupil units for kindergarten students with a disability in the same manner as for other kindergarten students
 - (Currently, kindergarten students with a disability are required to have 875 hours of instruction to generate one ADM versus 850 for other kindergarten students, and, unlike other kindergarten students, do not qualify for extended time revenue)
- Simplify equity revenue by rolling the \$50 per pupil uniform allowance portion into the basic general ed formula, and calculating the remaining equity revenue on a statewide sliding scale, eliminating the separate formulas for metro and rural districts.

Special Education Revenue

Recap of Current Status

- Special Education funding has increased significantly under the new formula implemented in FY 2016, slowing the growth of the special education cross subsidy
- However, the special education cross subsidy continues to grow each year
- The cross subsidy is higher on average for metro districts than nonmetro districts, and there is wide variation in the level of the cross subsidy within regions
- The growth cap and the hold harmless for the new formula are tied to FY 2016 special education expenditures, adjusted for inflation and ADM change. Use of FY 2016 data to drive future funding creates growing inequities among districts as special education programs and costs change over time
- Use of prior year data in the initial and excess cost formula creates inequities among districts with varying rates of program and expenditure growth

Special Education Revenue

Where Do We Go From Here?

- Increase state special education aid by at least enough to prevent continued growth of the cross subsidy, buying down the cross subsidy as much as possible over time
- Update the pupil-driven portion of the formula annually based on the most recent cost study
- Base initial and excess cost aid on current year data instead of prior year data
- Eliminate the growth cap and hold harmless based on FY 2016 data, and replace them with a formula guaranteeing that the sum of the initial and excess cost aid, excluding transportation, will be at least a certain minimum percentage of current year nonfederal program costs and not exceed a certain maximum percentage of those costs

Facilities Funding

Where Do We Go From Here?

Debt Service Equalization

- Reduce the threshold to qualify for debt service equalization from 15.74% to 10% of ANTC
- Replace the two-tiered equalization formula with a single tier, equalized at 125% of the state average ANTC / PU

LTFM

- Increase the LTFM allowance to reflect the state average allowance of Alternative Facilities districts, and link the allowance to the general education formula allowance

Capital Projects (Technology) Referendum

- Equalize at the same level as Tier 2 of the operating referendum

School Safety Funding

Where Do We Go From Here?

Safe Schools Revenue

- Double the allowance from \$36 to \$72
- Equalize the levy at the same level as the LTFM levy

School Safety Grants

- The FY 2019 grants covered only 10% of the amount requested
- Continue the program with additional funding for FY 2020 and later

Other Funding

Where Do We Go From Here?

Voluntary Pre-Kindergarten and School Readiness Plus

- Restore the 4,000 seats eliminated after FY 2019
- Continue to expand the program

American Indian Tribal Contract Aid

- Restore the maximum aid to the FY 2019 level of \$3,230 per student

Thank you!

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