



# Minnesota School Finance Overview, Trends, and Current Issues

Tom Melcher | Fred Nolan

July 24, 2020



# Ten Minnesota Commitments to Equity

- 1. Prioritize equity.**
- 2. Start from within.**
- 3. Measure what matters.**
- 4. Go local.**
- 5. Follow the money.**
- 6. Start early.**
- 7. Monitor implementation of standards.**
- 8. Value people.**
- 9. Improve conditions for learning.**
- 10. Give students options.**

# Major components of school revenue from state aids and local property taxes

## 1) Basic General Education Revenue

- Uniform level of general-purpose funding for all public school students.
- Theoretically, the basic formula should cover the cost of providing an adequate education for students without special needs in districts without unique high cost factors.

## 2) Referendum, Local Optional Revenue (LOR) and Equity Revenue

- Additional general-purpose funding to supplement the basic formula for locally-defined purposes, funded with additional local tax effort, with limited state equalization for low tax base districts.

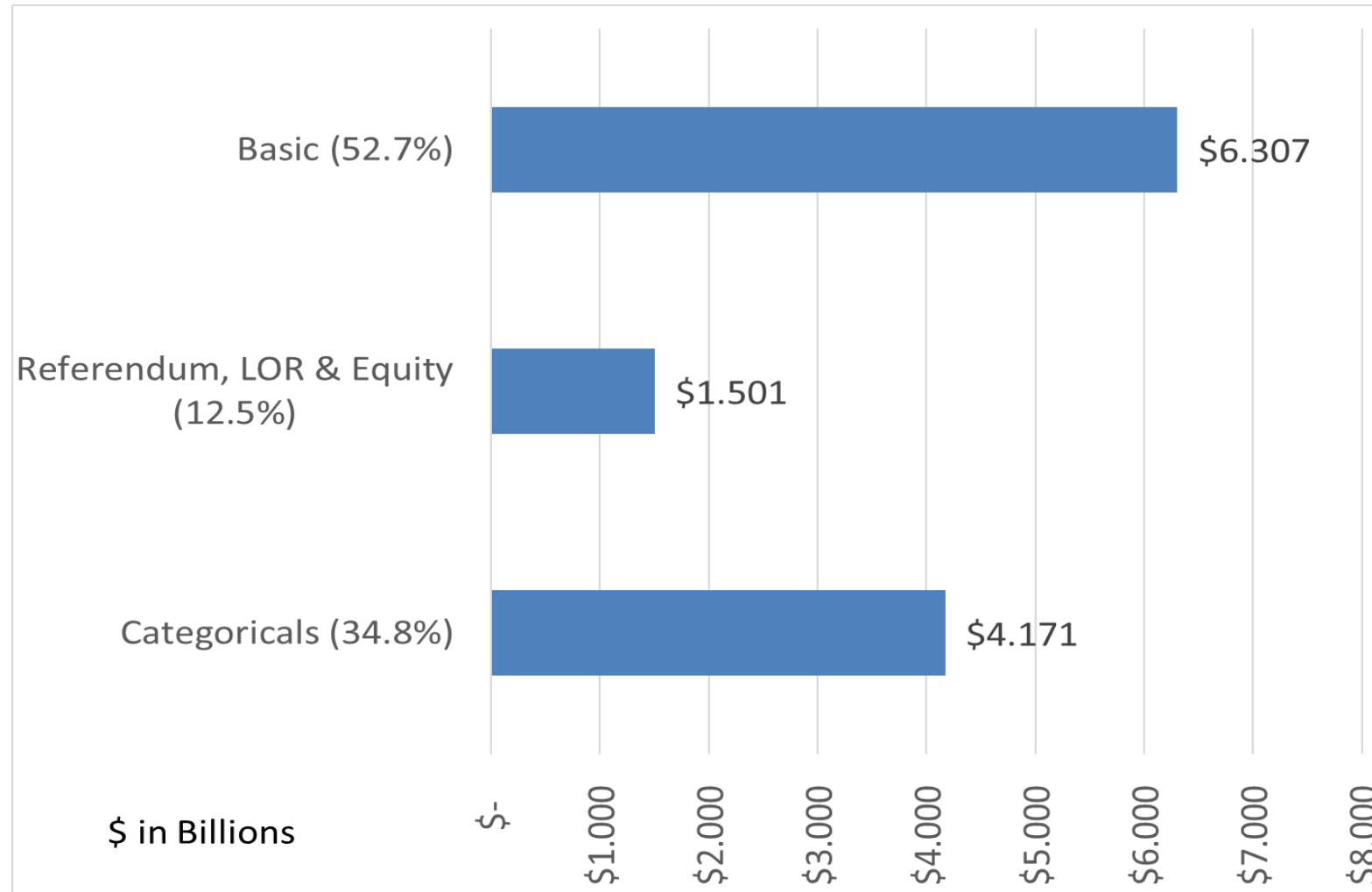
## 3) Categorical Revenue

- Additional funding for specific state-defined purposes, including added costs related to certain student and district characteristics, and to support state priorities (e.g., special education, compensatory, LTFM, EL). May be state aid, local levy, or a mix of aid and levy.

# Basic General Education Revenue

- **Basic Revenue** = Formula Allowance x Adjusted Pupil Units
- The formula allowance is set in statute at \$6,438 for FY 2020 and \$6,567 for FY 2021 and later.
- Basic Revenue is “unrestricted” – it may be used for any school purpose.
- Basic Revenue is currently funded entirely with state aid.
- From the 1950s through FY 2002, Basic Revenue was funded with a mix of state aid and a uniform local property tax levy. All school districts levied a uniform property tax rate against the district’s Adjusted Net Tax Capacity (ANTC), and the state aid was the difference between the basic revenue and the amount generated by the uniform levy.

# Breakdown of FY 2021 general fund revenue from state aid and levy by major component (\$12 billion)



# Detailed Listing of State School Finance Programs

## See Spreadsheet

Major State Education Aids and Levies (Formula-Driven)								
\$ in Thousands		FY 2021						
PROGRAM	AID	LEVY	TOTAL	Link To Gen Ed Formula?	Cost-Driven Inflation?	Tax Base	Equalizing Factors	Levy Equaliz. Indexed?
<b>1. GENERAL FUND</b>	\$	\$	\$					
General Education Program								
Basic	6,307,155	-	6,307,155	X				
Referendum	36,909	710,963	747,872	E & F*	A*	RMV	\$567,000 Tier1 / \$290,000 Tier2	
Local Optional	133,027	508,808	641,835			RMV	\$880,000 Tier1 / \$510,000 Tier2	
Equity	20,563	90,910	111,473	G*		RMV	\$510,000	
Compensatory	543,083	-	543,083	X				
English Learner	59,257	-	59,257					
Operating Capital	141,012	76,491	217,503			ANTC	\$23,885	
Transportation Sparsity	75,473	-	75,473	X				
Sparsity	28,707	-	28,707	X				
Small Schools	16,450	-	16,450					
Declining Pupil	9,952	-	9,952	X				
Extended Time	57,236	-	57,236					
Gifted and Talented	12,486	-	12,486					
Transition	4,699	25,091	29,790			RMV	\$510,000	
Options Adj (Referendum, Charter Transp, State Academies)	7,724	-	7,724					
Pension Adjustment	43,162	-	43,162					
School Land Trust Endowment	38,378	-	38,378					
<b>GENERAL EDUCATION SUBTOTAL</b>	<b>7,535,273</b>	<b>1,412,263</b>	<b>8,947,536</b>					

# Detailed Listing of State School Finance Programs (2)

See Spreadsheet

\$ in Thousands		FY 2021							
PROGRAM	AID	LEVY	TOTAL	Link To Gen Ed Formula?	Cost-Driven Inflation?	Tax Base	Equalizing Factors	Levy Equaliz. Indexed?	
<b>Categorical Aids:</b>									
Special Education (Total)	1,784,695		1,784,695		X				
Charter School Building Lease Aid	89,000		89,000						
Nonpublic Transportation	20,210		20,210	X	X				
American Indian Education	10,643		10,643						
Concurrent Enrollment	4,000		4,000						
Telecommunication Access	3,750		3,750						
Tribal Contract Schools	3,145		3,145	X					
<b>Categorical Aid / Levy:</b>									
Long Term Facilities Maintenance (LTFM)	108,743	424,630	533,373		B*	Ag Modified ANTC	123% State Avg	X	
Q Comp	88,866	40,721	129,587			ANTC	\$6,100		
Achievement & Integration D*	80,807	34,111	114,918			ANTC			
Career Technical	3,394	30,348	33,741		X	ANTC	\$7,612		
Abatement Funds 1, 4, 7	2,955	10,176	13,131			ANTC			
<b>Categorical Levy Only:</b>									
Building Lease		85,868	85,868			ANTC			
Capital Projects Referendum		121,354	121,354			ANTC			
Safe Schools		35,768	35,768			ANTC			
Annual OPEB		43,207	43,207		X	ANTC			
Reemployment Insurance		5,217	5,217		X	ANTC			
<b>TOTAL GENERAL FUND C*</b>	<b>9,735,480</b>	<b>2,243,662</b>	<b>11,979,142</b>						

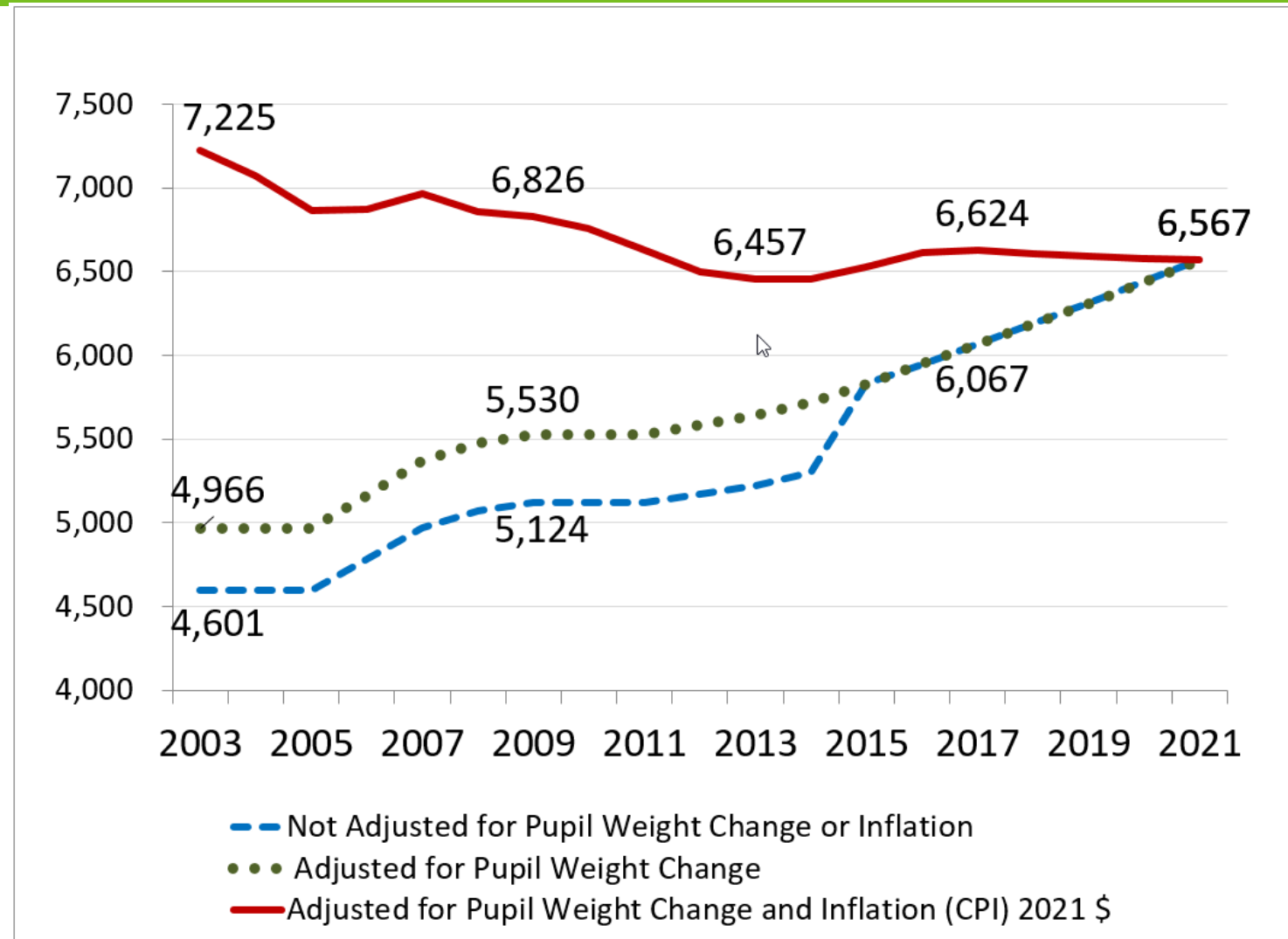
# Detailed Listing of State School Finance Programs (3)

## See Spreadsheet

\$ in Thousands		FY 2021							
PROGRAM	AID	LEVY	TOTAL	Link To Gen Ed Formula?	Cost-Driven Inflation?	Tax Base	Equalizing Factors	Levy Equaliz. Indexed?	
<b>COMMUNITY SERVICE FUND</b>									
School Readiness	33,683		33,683						
Early Childhood Family Education	33,784	22,115	55,899	X		ANTC	Uniform rate		
ECFE Home Visiting	529	577	1,106			ANTC	\$17,250		
Developmental Screening	3,605		3,605						
Community Educ - Basic	242	40,380	40,621			ANTC	Uniform rate		
Adults With Disabilities	710	669	1,379			ANTC	Match		
School Age Child Care	1	19,759	19,760		X	ANTC	\$2,318		
Adult Basic Education (Incl Nonprofits)	51,770		51,770		X				
Nonpublic Pupil Aid	19,029		19,029		X				
<b>TOTAL COMMUNITY SERVICE FUND</b>	<b>143,353</b>	<b>83,499</b>	<b>226,851</b>						
<b>DEBT REDEMPTION FUND (Including OPEB Debt)</b>									
Debt Service Equalization	22,970	780,051	803,021		X	ANTC	55.33% St Avg Tr1 / 100% St Avg Tr2	X	
Debt Service Equalization (Disasters)	2,979	2,254	5,232		X	ANTC	300% State Avg	X	
Debt Service-Aid Ineligible		54,296	54,296		X	ANTC			
Facilities & Equipment		17,229	17,229		X	ANTC			
OPEB Debt		57,703	57,703		X	ANTC			
Economic Development Abatement		7,919	7,919		X	ANTC			
Lease Purchase		61,087	61,087		X	ANTC			
<b>TOTAL DEBT REDEMPTION FUND</b>	<b>25,949</b>	<b>980,538</b>	<b>1,006,487</b>						
<b>GRAND TOTAL</b>	<b>9,761,429</b>	<b>3,224,200</b>	<b>12,985,629</b>						

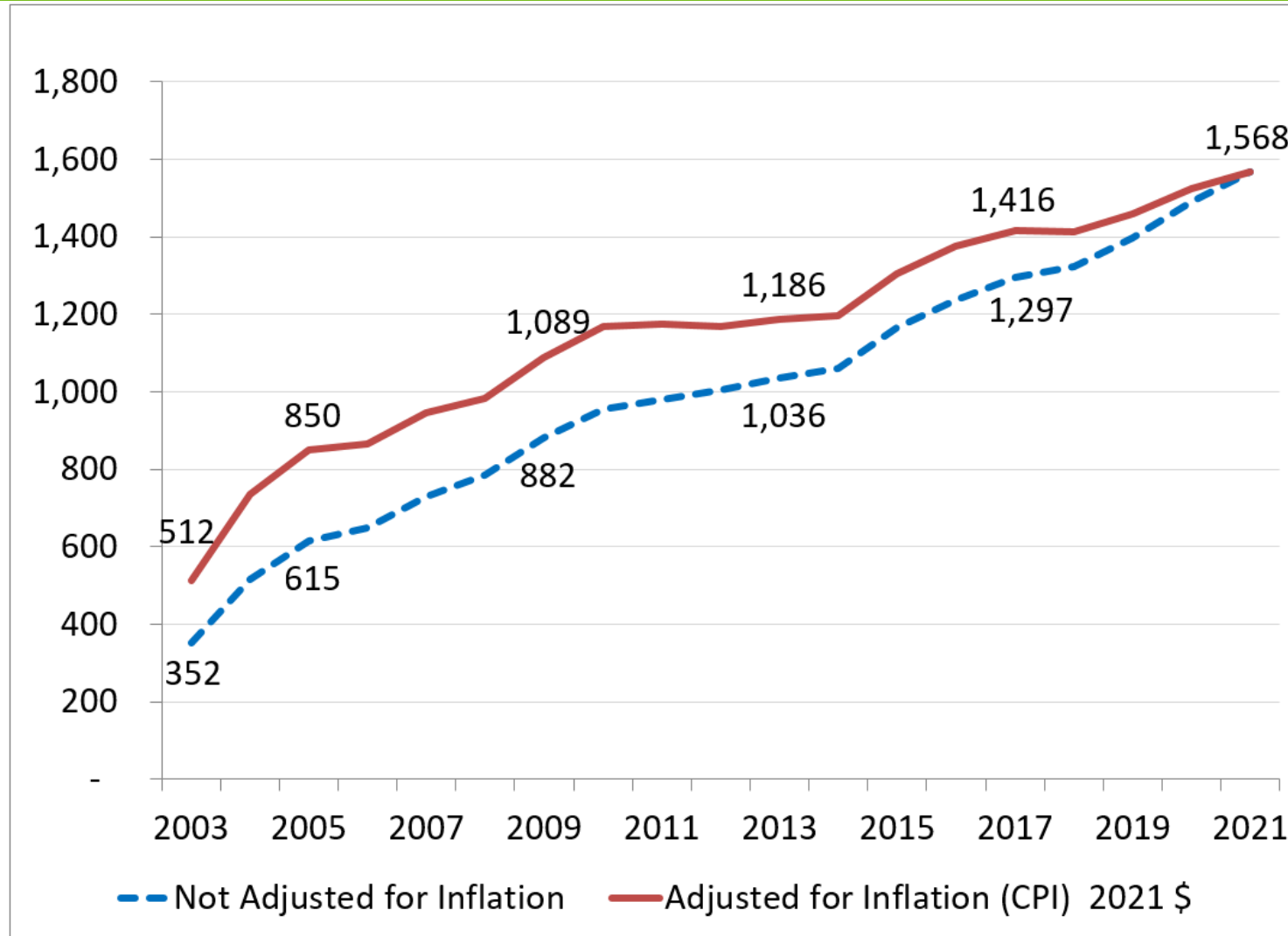


# General Education Formula Adjusted for Pupil Weight Change and Inflation (CPI) 2019 End of Session



# Referendum and Local Optional Revenue per ADM

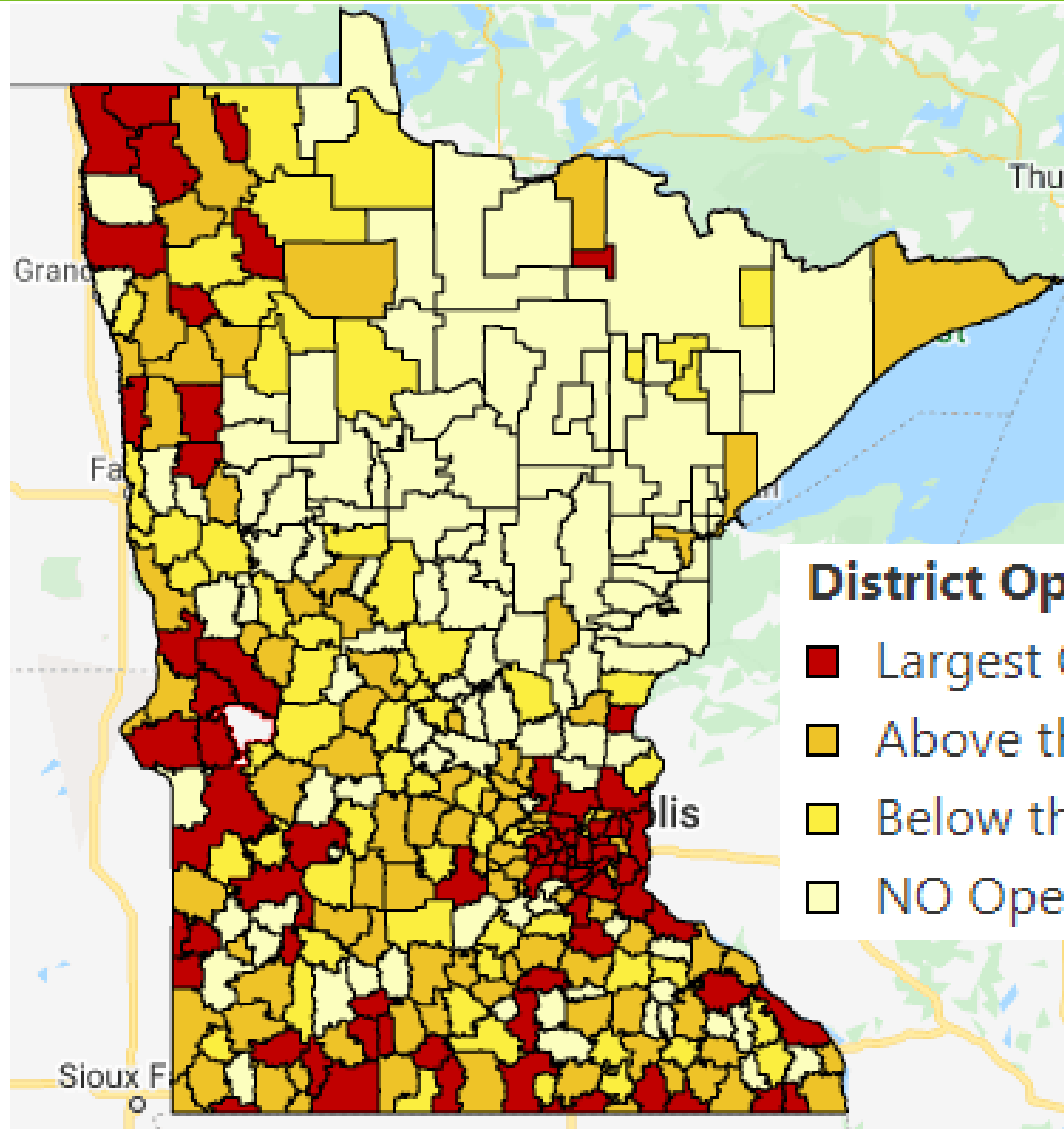
## 2019 End of Session



# Impact of shrinking basic revenue with increased reliance on referendum, LOR, equity revenue, and categoricals

- Increased reliance on voter-approved operating referendum revenue creates growing disparity in revenue per student among districts due to variations in local ability and willingness to pass referendum elections.
- Introduction of Local Optional Revenue (LOR) in FY 2015 temporarily reduced reliance on voter-approved operating levies, mitigating revenue disparities in the short term.
- Elimination of uniform general education levy in FY 2003 and growing reliance on other levies that are not well equalized creates growing disparity in property tax rates needed to generate the same revenue per student between property rich and property poor school districts.

# Statewide Distribution of Operating Referendum Revenue FY'21



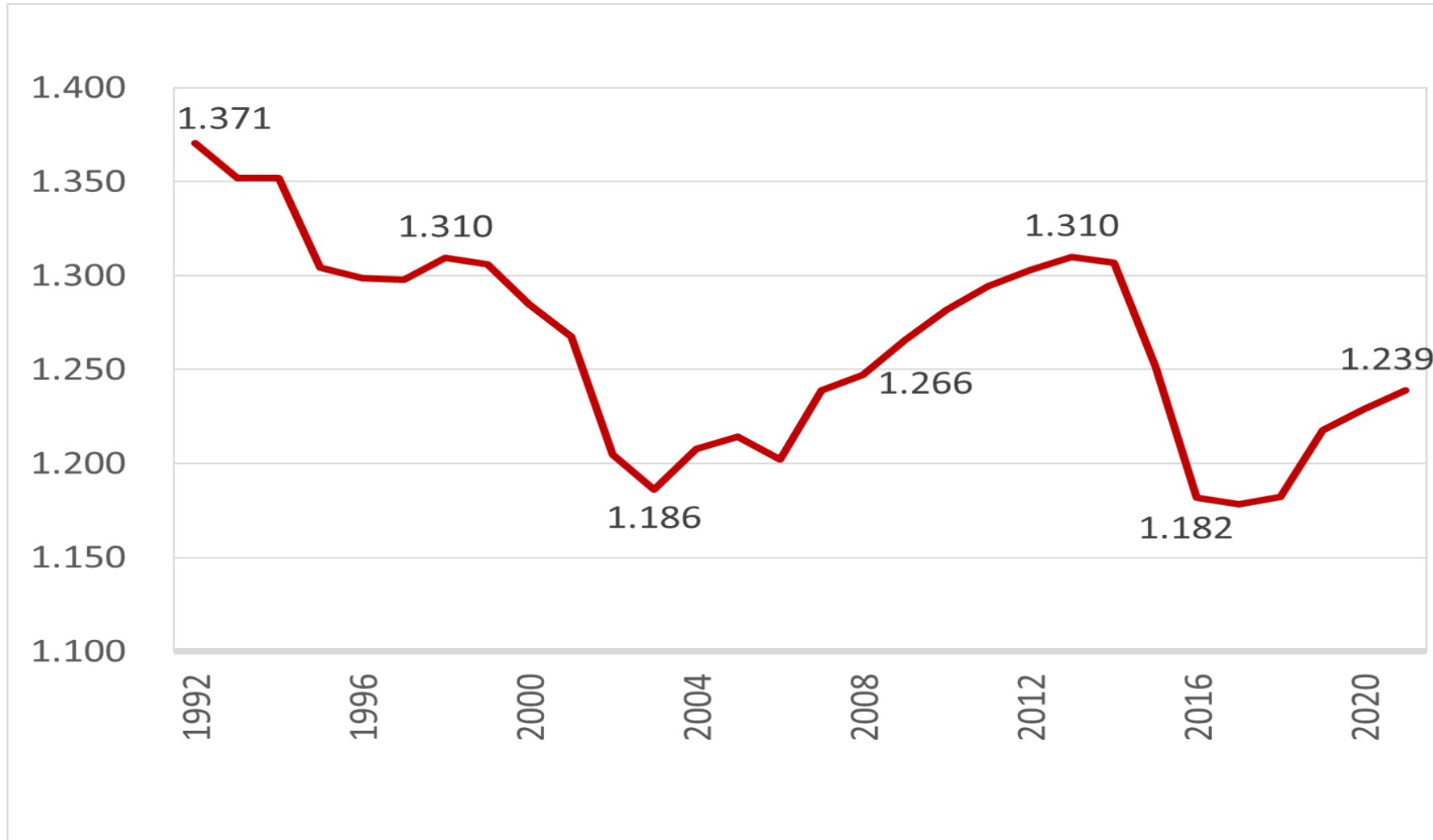
## District Operating Referendum per APU FY21

- Largest Operating Referendum > \$900
- Above the Median \$450-\$900
- Below the Median < \$450
- NO Operating Referendum

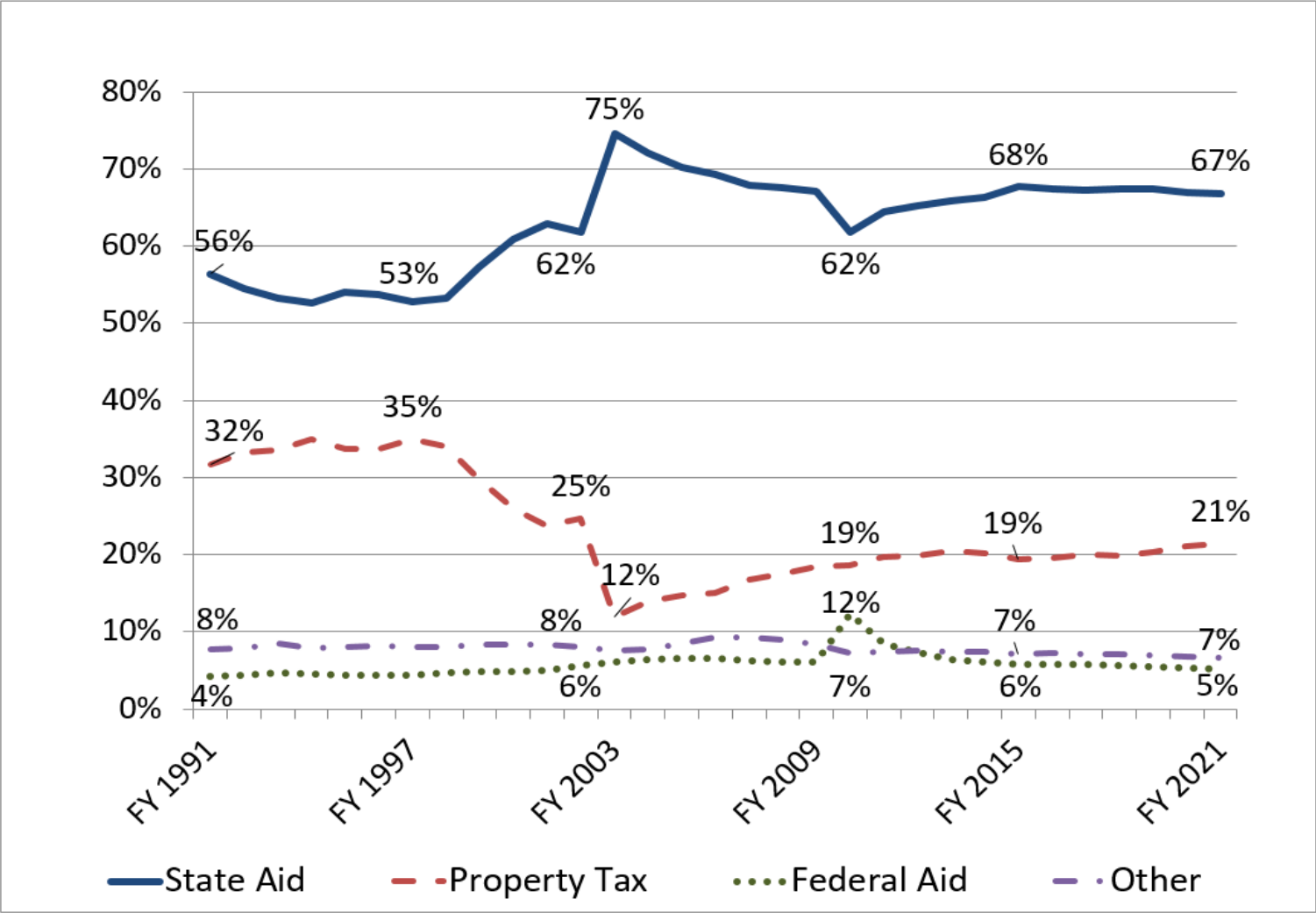
[View Interactive Map](#)

# Disparity in Unrestricted General Revenue per Student

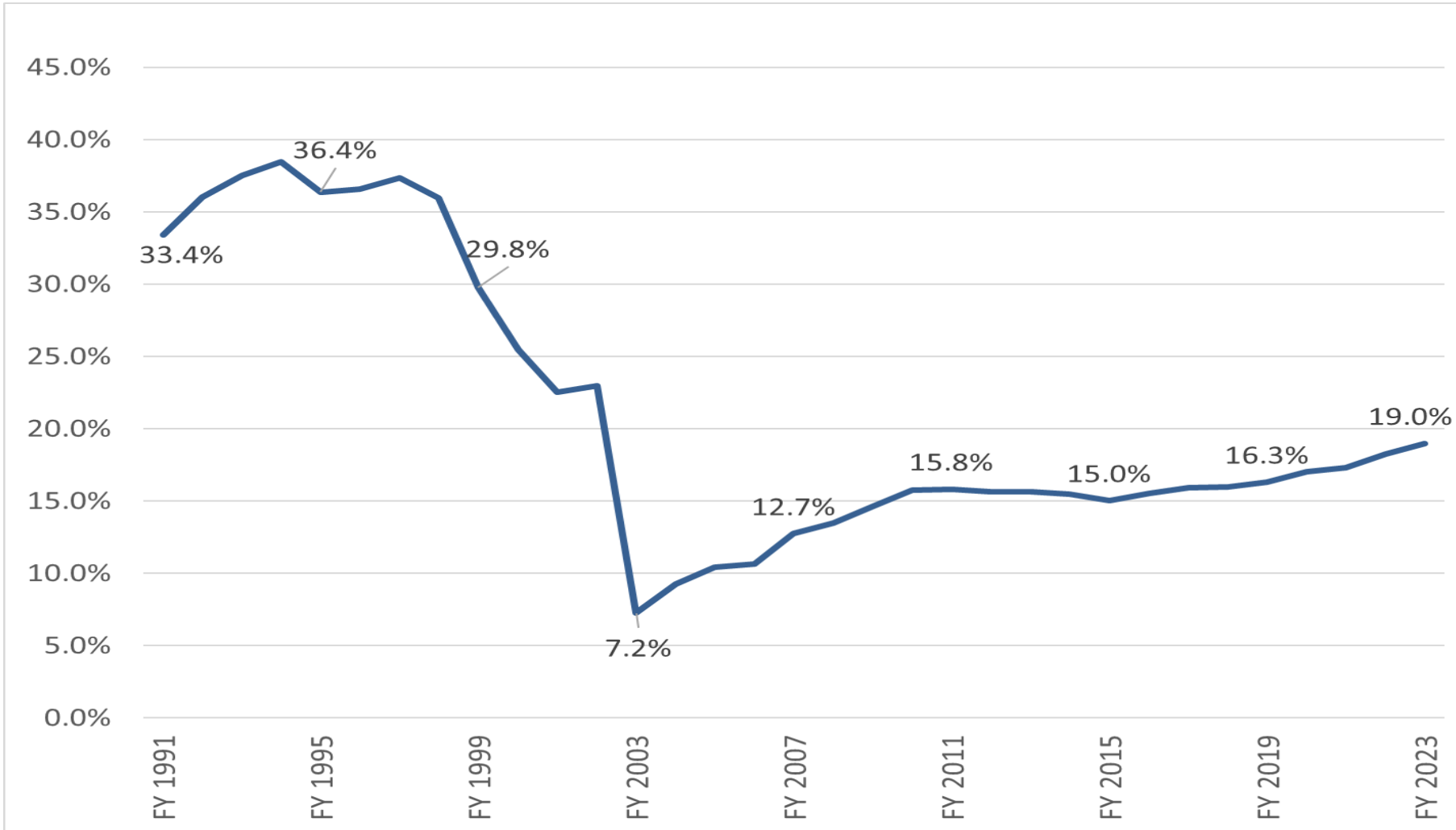
## 95<sup>th</sup> to 5<sup>th</sup> Percentile Ratio, FY 1992 – FY 2021, November 2019 Data



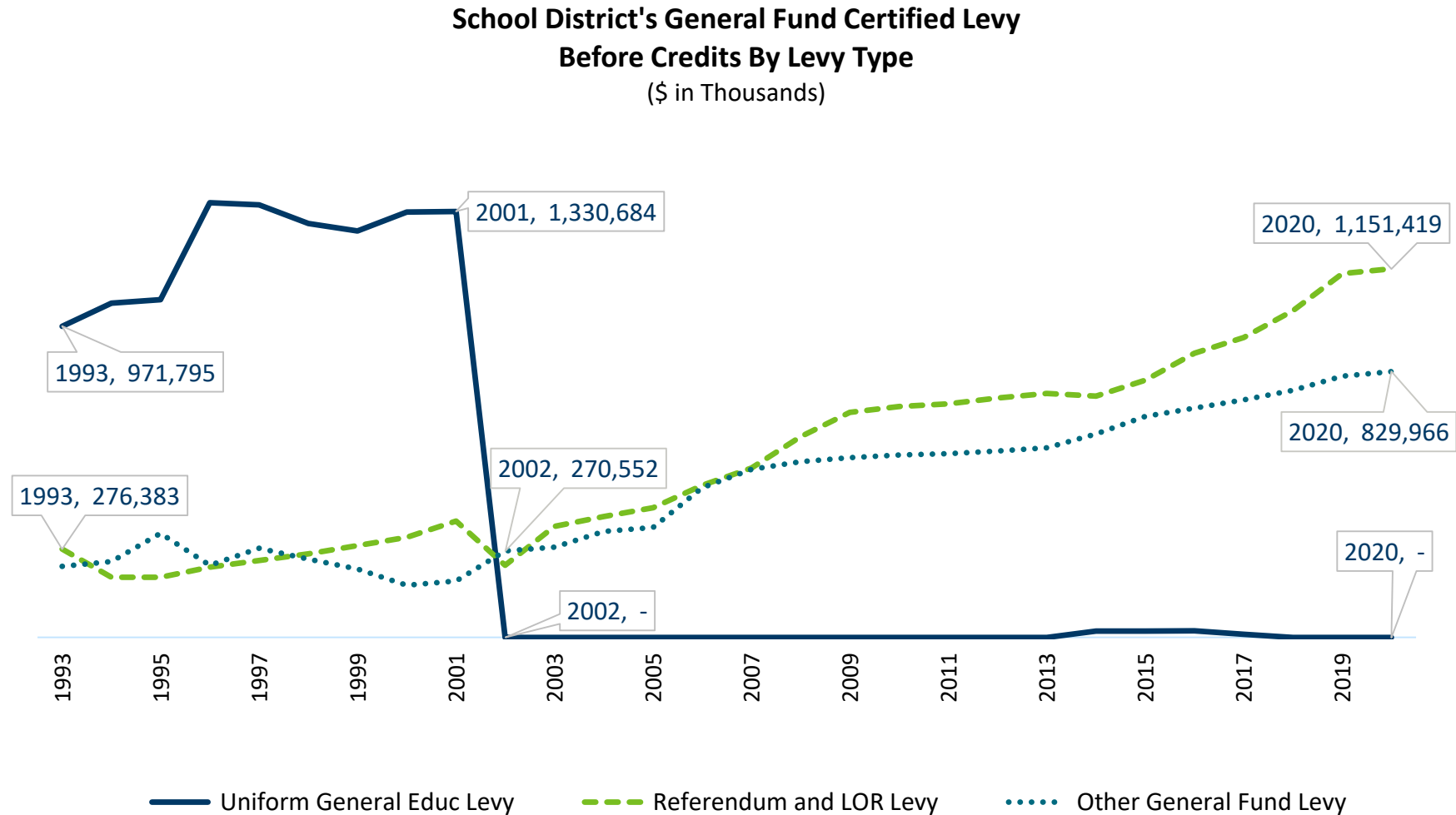
# E-12 Education Revenue by Source, All Funds, FY 1991 – FY 2021



# Property Tax as a Percent of Total E-12 General Fund Revenue FY 1991 – FY 2021



# School District General Fund Levy by Levy Type, 1993 - 2020





# Property Tax Levy Mechanics: Overview

Property tax levies for school districts are governed by formulas specified in state law. Local school boards are authorized 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.

Operating referendum and local optional levies are spread on **Referendum Market Value (RMV)**

- Agricultural land and seasonal recreational cabin property are exempt
- Property is valued at 100 Percent of Estimated Market Value

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

# Property Tax Base: Terminology (1)

## Property Tax Base

- Referendum Market Value
  - = Estimated market value, excluding:
    - Agricultural land and buildings (Note: house, garage, and one acre are not exempt)
    - Seasonal recreational residential
  - Used only for operating referendum, local optional, transition and equity levies
- Adjusted Net Tax Capacity (ANTC)
  - = (Taxable market value for all types of property x Statutory class rate)/Sales ratio
  - Used for all other school levies, including debt service levies

# Property Tax Base: Terminology (2)

- Taxable Market Value = Estimated Market Value – Market Value Exclusion
  - Market value exclusion = 40% of first \$76,000 of value, less 9% of value over \$76,000 (no exclusion for homes valued at \$413,800 or above)
- Net Tax Capacity = Taxable Market Value x Class Rate
  - Class Rates are statutory percentages applied to taxable market value:

Residential Homestead:	First \$500,000	1.00%
	Remainder	1.25%

# Property Tax Base: Terminology (3)

Agricultural Land and Buildings (homestead)  (Taxes Payable 2020 for FY 21)	First \$1,880,000	0.50%
	Over \$1,880,000	1.00%
Commercial and Industrial	First \$150,000	1.50%
	Remainder	2.00%
Seasonal Recreational Residential	First \$500,000	1.00%
	Remainder	1.25%

# Property Tax Base: Terminology (4)

## Property Tax Base (Continued)

**Sales Ratio** = Estimated Market Value/Actual Sales Price

(Computed by state revenue department based on comparison of assessor's estimates of market values with actual sales prices.)

**Adjusted Net Tax Capacity** = Net Tax Capacity/Sales Ratio

- Note: For long-term facilities maintenance revenue, a variation of Adjusted Net Tax Capacity (ANTC) excluding one half of the value of agricultural land is used to calculate the state and local shares of the revenue

# Property Tax Base: Variation Among Districts

FY 2021 – February 2020 Forecast

(Percentiles calculated based on number of students)

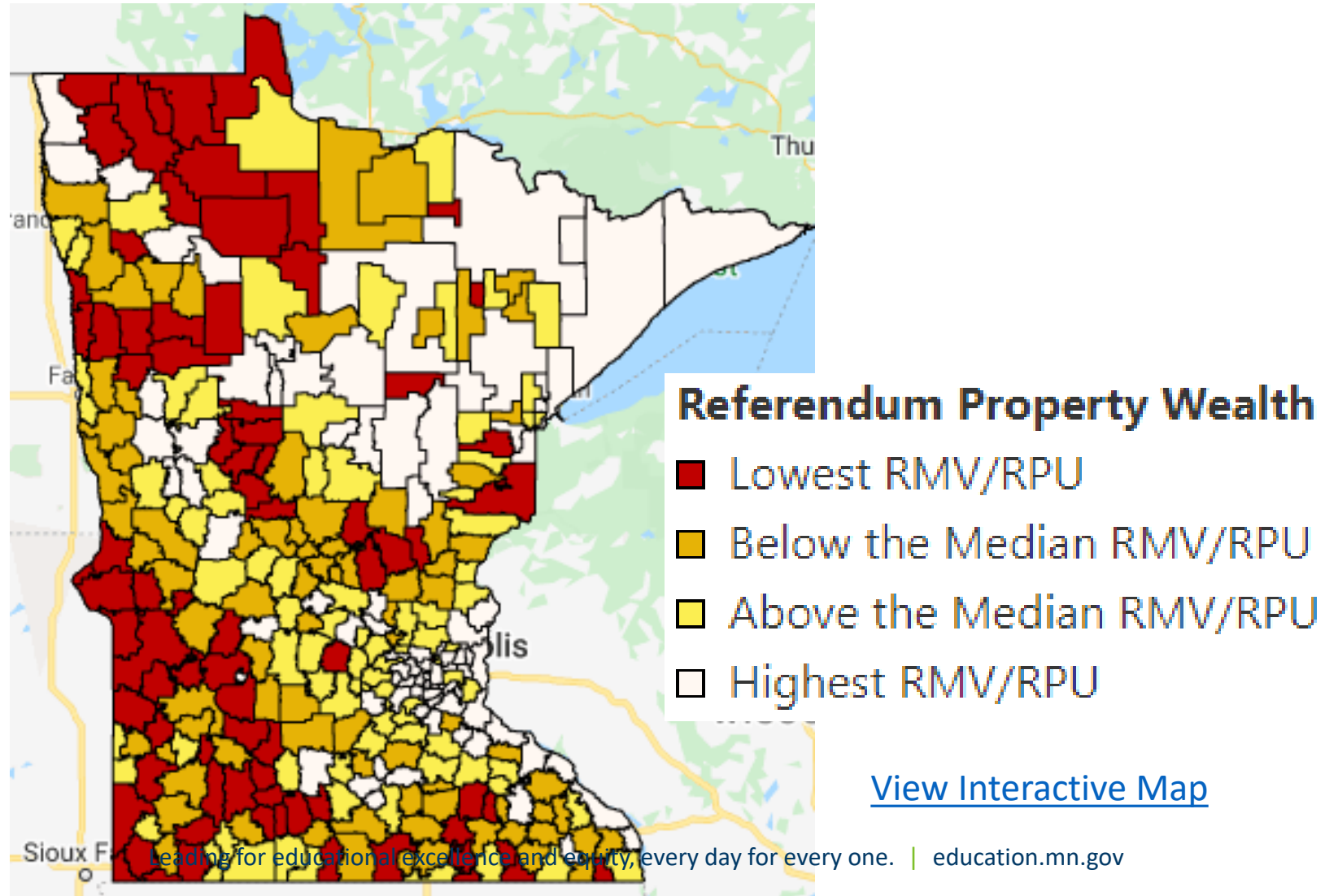
## Referendum Market Value (RMV) per Resident Pupil Unit

State Average	600,195
95th Percentile	1,090,927
5th Percentile	308,821
Ratio of 95 <sup>th</sup> to 5 <sup>th</sup> Percentile	3.53

## Adjusted Net Tax Capacity (ANTC) per Adjusted Pupil Unit

State Average	9,108
95th Percentile	19,052
5th Percentile	4,567
Ratio of 95 <sup>th</sup> to 5 <sup>th</sup> Percentile	4.17

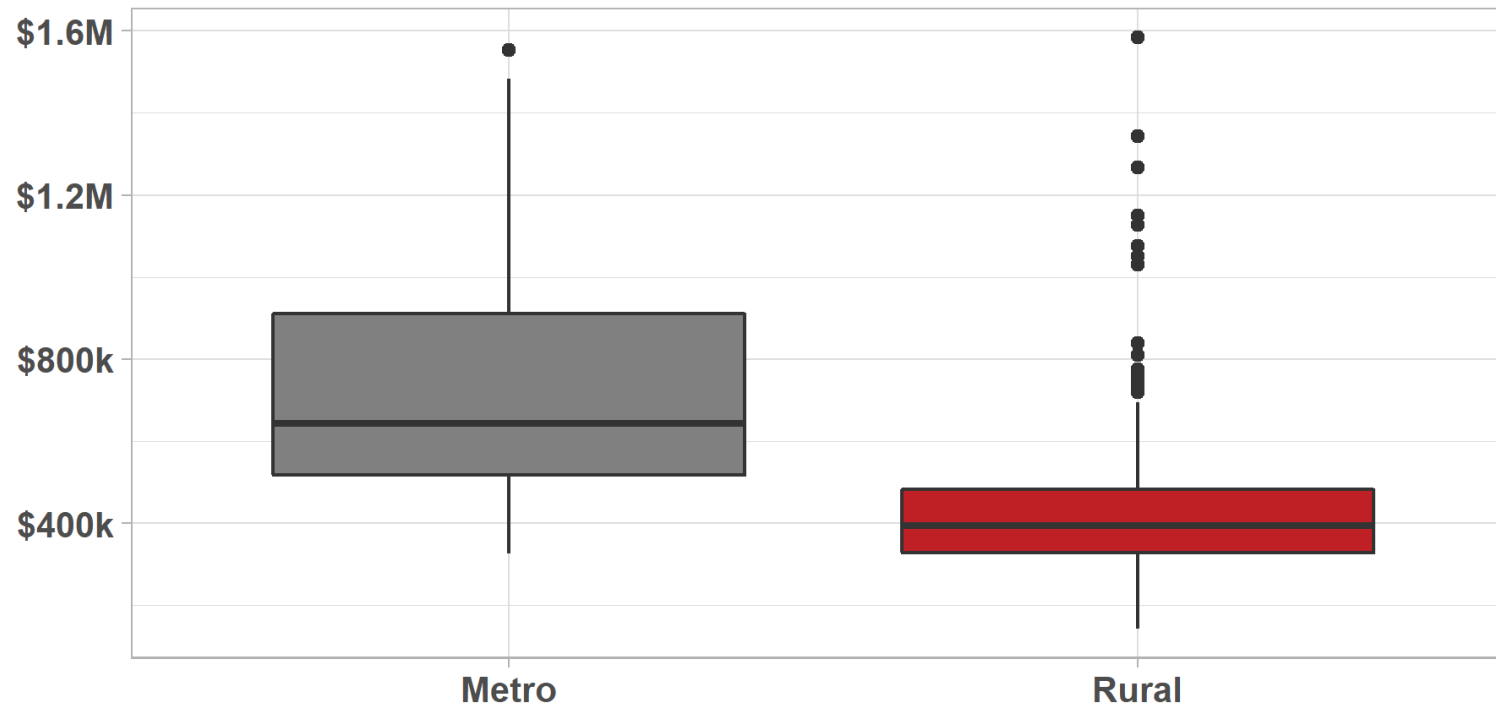
# Statewide Distribution of RMV/RPU Referendum Property Value



# Metro v Rural Distribution of Referendum Property Values

## RMKV per RPU

Metro vs. Rural Districts, FY19



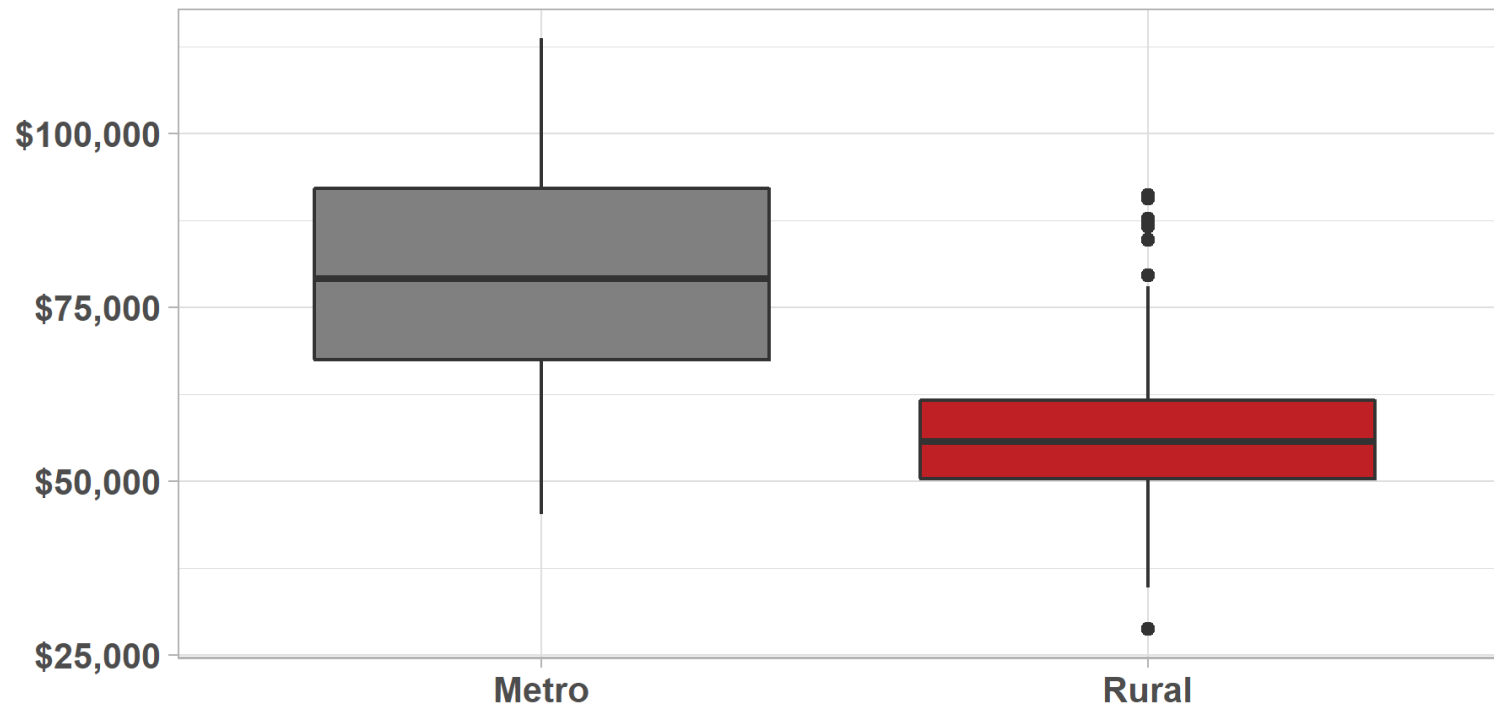
[mreavoice.org](http://mreavoice.org)



# Metro v Rural Distribution of Household Median Income

## Median Household Incomes

Metro vs. Rural Districts, ACS 2017



[mreavoices.org](http://mreavoices.org)

# Metro v Rural Tax Rates for Current Operating Referendums by Median Income

## Referendum Tax Rates, by District

Current Tax Rates

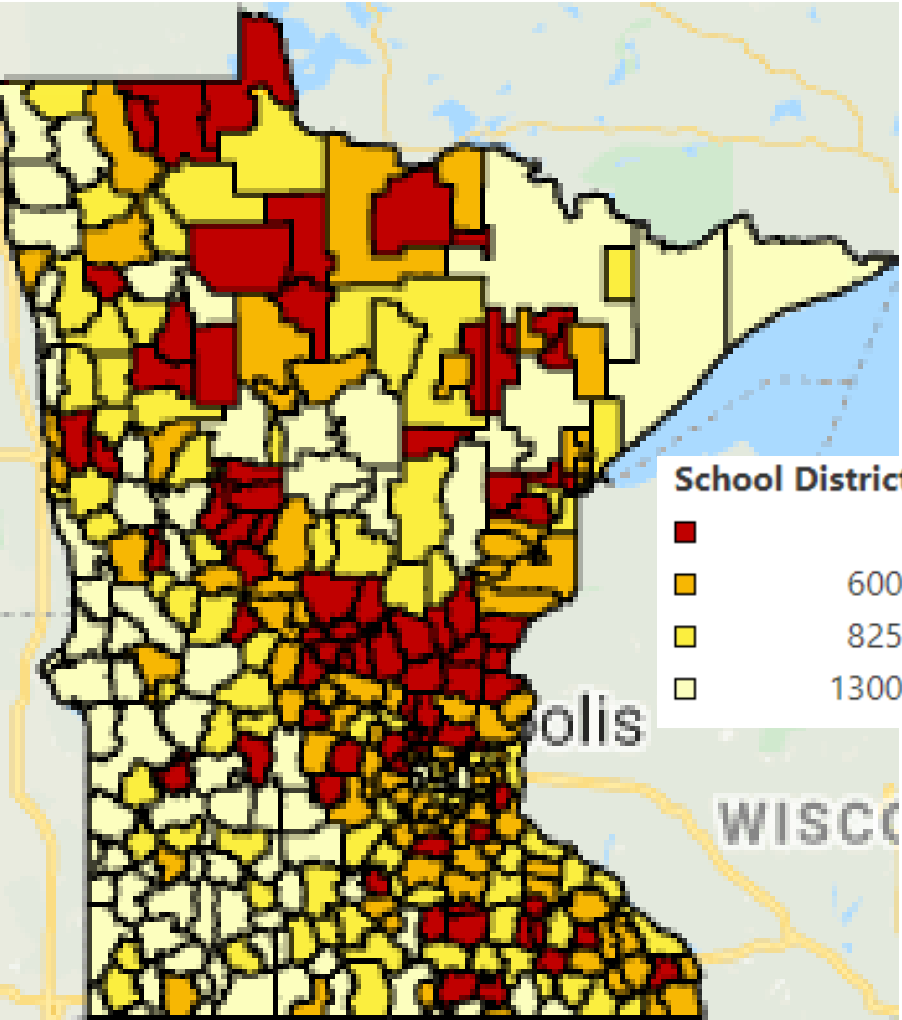


[mreavoice.org](http://mreavoice.org)

Despite higher operating referendums per pupil, Metro districts have uniformly lower RMV tax rates due to higher RMV.

102 Rural districts are at zero, the others have tax rates at all levels.

# Statewide Distribution of ANTC/APU Property Value



**School District Property Wealth in Adjusted Net Tax Capacity (ANTC) per Student (APU)**

■	0 to	5999.99	Lowest wealth in ANTC/APU
■	6000 to	8249.99	Below the median wealth
■	8250 to	12999.99	Above the median in wealth
■	13000 to	749000	Greatest wealth in ANTC/APU

[View Interactive Map](#)

# Property Taxes: State Support

The state provides two types of support to reduce school property tax burdens:

## 1) Levy Equalization

- A portion of the levy is covered with state aid for school districts with tax base per student below an “Equalizing Factor” defined in statute
- The lower the district’s tax base per student, the higher the state share of the levy revenue
- Funded in the E-12 Education Bill

## 2) Property Tax Credits

- Provide targeted tax relief for certain types of taxpayers (e.g., school building bond agricultural credit pays 40 percent of the school debt service levy on agricultural land for FY 20, 50 percent for FY 2021, 55 percent for FY 2022, 60 percent for FY 2023. and 70 percent for FY 2024 and later.
- Funded in the Tax Bill

# Referendum and Local Optional Revenue (LOR) (1)

School Districts may raise additional “unrestricted” money for general school purposes through an operating referendum election or by accessing Local Optional Revenue (LOR).

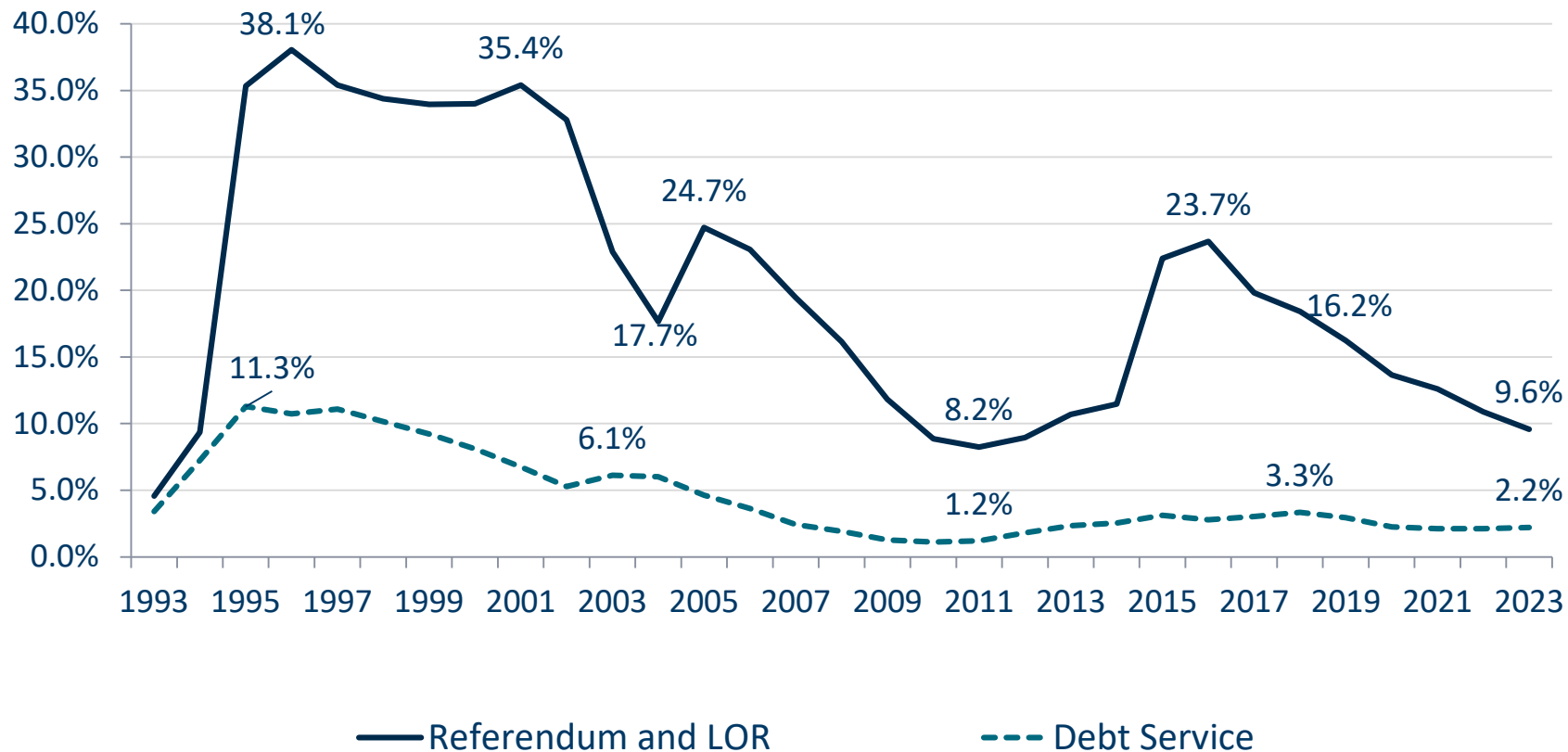
- **Local optional revenue (LOR)** of \$724 per pupil unit is available to all school districts for FY 2021 and later by board resolution; it does not require an election.
  - This amount was offset from any referendum authority previously approved by the voters prior to November 2019 elections.
  - LOR is equalized in two tiers:
    - Tier 1 – First \$300 / APU; Equalizing Factor = \$880,000/ RPU
    - Tier 2 – Next \$424 / APU; Equalizing Factor = \$510,000 / RPU

# Referendum and Local Optional Revenue (2)

- **Referendum revenue** requires voter approval in a November election.
  - The amount approved is specified on the ballot as an amount per adjusted pupil unit.
  - A referendum cap limits the amount of referendum authority per pupil. The standard cap for FY 2021 is \$1,780 per pupil unit. School districts eligible for sparsity revenue are exempt from the cap. A few other districts have grandfathered cap above the standard cap.
  - Referendum authority is limited to 10 years; a referendum election is required to renew an expiring referendum
  - The first \$1,342/ APU of referendum revenue for FY 21 and later is equalized in two tiers.
    - Tier 1 – First \$460 / APU; Equalizing Factor = \$567,000/ RPU
    - Tier 2 – Next \$882 / APU; Equalizing Factor = \$290,000 / RPU

The use of fixed equalizing factors for referendum, LOR and debt service equalization has resulted in a gradually declining state share of revenue over time. The legislature has periodically addressed this by increasing equalizing factors

State Share of Referendum + Local Optional Revenue (LOR) and Debt Service Revenue



# Minnesota School Finance after the Miracle versus Today

## Minnesota Miracle

- General Education Formula was a very high percent of average operating cost, sufficient for most districts to fund adequate regular education programs without a referendum
- Uniform general education levy funded about 30% of the formula; other school operating levies were very small
- No referendum equalization

## Today

- General Education Formula is a much lower percent of average operating cost; nearly all districts make a LOR levy and most make a referendum levy to supplement basic revenue
- No uniform general education levy; other school operating levies have replaced it
- Referendum and LOR levies are partially equalized, but the state share declines as tax base grows with inflation due to fixed equalizing factors



# Consider these proposals between now and July 16

Ask questions as needed.

Tom Melcher [tom.melcher@state.mn.us](mailto:tom.melcher@state.mn.us)