



Education Funding: A History of Funding Increases and Reductions

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A History of Education Increases and Reductions

Since the 2003 Legislative Session, when significant attention was focused on the reductions made that year to education funding, questions have been raised about the precedent for such reductions. While it is true that reductions to education funding are rare, they are not unprecedented. In addition to the reductions for fiscal years 2004 and 2005, during the early 1980s the state reduced education aid and the basic formula amount, which is the source of the majority of school district revenue.

Overview

There are a variety of methods to assess changes in education funding (broadly defined as elementary and secondary education but also including community education programs) over time. This document looks at three of those methods:

The first section looks at changes in school district entitlements from state aid. This approach counts the aid in the year in which the school district counts that aid as revenue, not necessarily in the year in which the state pays the aid to the school districts. This method factors out impacts of shifts between fiscal years in state payments to school districts. State funding for tax relief aids are not included in these numbers.

Secondly, there is a review of changes in state appropriations for education programs. This approach is based on which fiscal year the state appropriates the money, not on when the school district may be counting the appropriation as revenue. Shifts in education appropriations have a direct impact on state appropriations, so year to year changes (up or down) in appropriations for education may not reflect actual changes in revenue to school districts. State appropriations for tax relief aids are not included in these numbers.

Finally, the last section examines the basic formula allowance - called the foundation formula for many years and the general education formula since 1989. The formula allowance is a per pupil amount and until 2003 was funded through both state aid and local property tax levies. While the basic formula allowance is another way to measure education funding, changes in the formula were often dependent on the amount of funding provided through formula components in addition to the basic formula and through other categorical funding.

Changes in State Entitlements

While the basic formula amount funds the vast majority of education spending, changes in total education revenue can change without a change in the basic formula. Table 1 shows the total and per pupil state aid entitlement¹ from fiscal year 1982 to fiscal year 2007. Using aid entitlements eliminates the impact that shifts and other payment changes have on aid payments, to give a more accurate picture of school district revenue.

¹ The term aid entitlement means 100 percent of the aid for a fiscal year that a funding formula generates. Many education appropriations are made on a split basis, with a portion paid in the current year, and a final payment in the next fiscal year, so that the current year's appropriation represents part of the current year entitlement and part of the previous year's entitlement. State aid in this case includes all regular payments to school districts, not including tax credits.

Price of Government data goes back to 1984, as that was when the Integrated Department of Education Aids System (IDEAS) was implemented. 1982 and 1983 data is from the Minnesota Department of Education. Prior to 1982, data on state aid entitlements is incomplete or unavailable.

The table shows that there were two periods in which total aid entitlements and aid per pupil went down: between fiscal year 1982 and 1983, and during fiscal years 2004 and 2005. Between 1982 and 1983, the aid entitlement fell by 21.9 percent, in part a result of the reductions in the foundation formula described in the last section. Between 2003 and 2005, the aid entitlement fell by approximately \$76 million. While the 2003 education finance act reduced state aid by \$185 million, that reduction was a reduction from the *forecast base* amount, not from the prior year's totals.

TABLE 1
Education State Aid Entitlements
(Total dollars in thousands)

Fiscal Year	Total State Aid		Aid per Pupil	
1982	1,210,700		1,661	
1983	946,100	-21.9%	1,331	-19.9%
1984	1,065,514	12.6%	1,522	14.4%
1985	1,066,007	0.0%	1,532	0.7%
1986	1,274,212	19.5%	1,822	18.9%
1987	1,418,088	11.3%	2,002	9.8%
1988	1,533,268	8.1%	2,141	7.0%
1989	1,603,208	4.6%	2,216	3.5%
1990	1,693,325	5.6%	2,309	4.2%
1991	2,243,533	32.5%	2,988	29.4%
1992	2,313,643	3.1%	3,013	0.9%
1993	2,373,532	2.6%	3,023	0.3%
1994	2,470,649	4.1%	3,091	2.2%
1995	2,837,324	14.8%	3,492	13.0%
1996	2,956,485	4.2%	3,572	2.3%
1997	3,008,251	1.8%	3,588	0.4%
1998	3,267,620	8.6%	3,866	7.8%
1999	3,564,226	9.1%	4,185	8.2%
2000	3,955,138	11.0%	4,639	10.8%
2001	4,268,222	7.9%	4,998	7.7%
2002	4,334,571	1.6%	5,090	1.9%
2003	6,088,481	40.5%	7,189	41.2%
2004	6,064,014	-0.4%	7,218	0.4%
2005	6,012,057	-0.9%	7,245	0.4%
2006	6,252,930	4.0%	7,570	4.5%
2007	6,444,278	3.1%	7,802	3.1%

There is less historical information about the forecast base (to compare the 2003 session \$185 million reduction to) than there is for overall changes in aid, primarily because forecast base as a budgeting concept was not even developed until the mid 1990s. The 1997 session spreadsheet (for fiscal years 1998 and 1999) is the first to compare actual appropriations with forecasted base amounts. Since that time, there have been two sessions that reduced state aid compared to the forecast base amount. The first was the 2002 session, when forecasts were beginning to show deficits for fiscal years 2003 through 2005. During that session, \$15 million was cut from the base budget for education. As the table shows, that reduction does not show as a reduction in the total aid entitlement because of the large increase in aid for 2003 that resulted from the state takeover of the general education levy. The second reduction came during the 2003 session, when appropriations were made for fiscal years 2004 and 2005. The forecast base budget for fiscal years 2004 and 2005 was reduced by \$185 million.

Source: 1982-1983 MN Dept. of Education
1984-2007 MN Dept. of Finance
Price of Government

On a per pupil basis, the reduction for fiscal year 1983 from the 1982 session is the only decrease in total *and* per pupil aid entitlement since fiscal year 1982 (because of enrollment changes, and because the cuts were partly cuts to the base, rather than from the prior year, the reductions in the 2004-2005 biennium don't even show up reductions on a per pupil basis). The reductions in 2002 and 2003, as compared to the forecast base, were the only reductions relative to base since the 1997 session.

Changes in State Appropriations

Appropriation changes are less reliable indicators of increases and decreases in state funding, in that appropriations are affected by changes in accounting shifts, including property tax shifts and payment schedule changes. However, review of the appropriation data confirms the information reviewed in the entitlement section.

Table 2 is a summary of the state appropriations for education aids from fiscal year 1978 to fiscal year 2007. There are aid reductions compared to the previous fiscal year on only four occasions. The first, in 1981, was due to the implementation of a new property tax recognition shift. The second, in 1983 was an actual reduction in revenue to school districts. The reduction shows up on the entitlement basis analysis (Table 1), but also in comparison documents showing appropriations in fiscal year 1983 from the 1981 and 1982 session. Part

**Table 2:
General Fund Education Appropriations History**
(Total \$ in thousands)

Fiscal Year	Education Appropriations		Appropriation per Student	
1978	880,272		1,059	
1979	937,976	6.6%	1,168	10.3%
1980	1,004,920	7.1%	1,302	11.5%
1981	832,239	-17.2%	1,108	-14.9%
1982	1,431,550	72.0%	1,963	77.3%
1983	755,061	-47.3%	1,062	-45.9%
1984	1,009,671	33.7%	1,442	35.8%
1985	1,137,614	12.7%	1,635	13.4%
1986	1,236,586	8.7%	1,769	8.2%
1987	1,330,329	7.6%	1,878	6.2%
1988	1,464,685	10.1%	2,045	8.9%
1989	1,562,316	6.7%	2,159	5.6%
1990	1,652,195	5.8%	2,253	4.3%
1991	2,096,763	26.9%	2,792	23.9%
1992	2,172,952	3.6%	2,830	1.3%
1993	2,118,177	-2.5%	2,698	-4.7%
1994	2,415,894	14.1%	3,023	12.0%
1995	2,750,008	13.8%	3,384	12.0%
1996	2,889,797	5.1%	3,492	3.2%
1997	3,147,865	8.9%	3,755	7.5%
1998	3,310,873	5.2%	3,918	4.3%
1999	3,597,760	8.7%	4,224	7.8%
2000	3,959,662	10.1%	4,644	9.9%
2001	4,296,835	8.5%	5,031	8.3%
2002	4,375,028	1.8%	5,138	2.1%
2003	5,475,112	25.1%	6,465	25.8%
2004	5,667,270	3.5%	6,746	4.4%
2005	6,276,247	10.7%	7,563	12.1%
2006	5,954,742	-5.1%	7,209	-4.7%
2007	5,958,328	0.1%	7,214	0.1%

of the reduction in the appropriation for 1983 was the adoption of a 85-15 payment shift for many appropriations that had previously been paid on a 100 percent basis, in addition to the conversion of 90 -10 shifted programs to 85-15. In addition, some revenue was shifted from

state aid to local levy (the levy amount increased approximately \$250 million between 1982 and 1983, although some of that growth is due to increased property values). In addition, records from the period show that some programs (such as summer school) were eliminated entirely. Finally, other programs, including the basic foundation formula, as discussed in the third part of this paper, were reduced (foundation aid declined from \$629 million to \$538 million for fiscal year 1983 between the 1981 and 1982 sessions).

The reduction in fiscal year 2006 is from two things: fiscal year 2005 appropriations being high due to the state appropriating additional funds to begin paying back the shifts from the 2003 session, and fiscal year 2006 being artificially low as the state captured additional property tax shift savings due to additional levies being authorized in the 2005 session.

In general, shift changes are one-time occurrences, so the fact that appropriations stayed below the fiscal year 1982 level (not including shifts) until fiscal year 1986 indicates that the fiscal year 1983 reductions were actual cuts to school districts. That conclusion is confirmed in the entitlement analysis and a review of the general education basic formula allowance changes during the same time period.

Education Formula History and Changes

The major share of school district funding has been through a per pupil formula called the foundation formula for many years and, since fiscal year 1989², the basic general education allowance. The per pupil formula allowance amount is established in law³. Table 3 (attached) shows the education formula allowance each year since the 1958 fiscal year.

The formula allowance sets an amount of revenue on a per pupil basis for school districts. Prior to fiscal year 2003 that revenue allowance was made up of a combination of state aid and local property tax levy. Since fiscal year 2003, the basic general education formula allowance has been funded totally with state aid, there has been no local levy amount funding the basic formula allowance. Generally the formula allowance is established in law one or two years prior to the year for which that formula is providing the funding. For example, the 2005 Legislature set the formula allowance for fiscal years 2006 and 2007.

The formula allowances in place in fiscal years 1973 through 1978 were the amounts for districts with above average adjusted operating costs in fiscal year 1971. Districts with below average costs in fiscal year 1971 (catch-up districts) were phased-in to the new formula allowance over six years.

Several times since 1979, formula allowances were set at one amount then increased a year later. That occurred to the formula for fiscal years 1979⁴, 1980⁵, 1981⁶, 1988⁷, 1989⁸, 1990⁹ and 2001¹⁰.

² Note the use of fiscal year rather than school year - fiscal year 1989 is the 1988-89 school year.

³ Minnesota Statutes, Section 128.092 in 1957 and 1958; Section 124.12 in 1959 through 1966; Section 124.211 in 1967 through 1970; Section 124.212, in 1971 through 1980; Section 124.2122, Subdivision 1 in 1981 through 1984; Section 124A.02, Subdivision 9 in 1985 and 1986; Section 124A.22, Subdivision 2 in 1987 through 1998; and Section 126C.10, Subdivision 2 since 1999.

⁴ Laws 1977, Chapter 447, Article 1, Section 13 set the formula at \$1,090 for FY 1979; Laws 1978, Chapter 764, Article 1, Section 48 increased that formula to \$1,095.

In the early 1980s, due to state budget problems, previously set formula amounts were later decreased. The formula for fiscal year 1982 was initially set at \$1,354, decreased to \$1,318, and then increased to \$1,333¹¹. The formula for fiscal year 1983 was initially set at \$1,400, then increased to \$1,416, then decreased to \$1,346¹². While the formula allowance in law for fiscal year 1983 was not reduced further, a general aid reduction pro-rated funding for most education programs so that the formula was funded at only \$1,313¹³.

After fiscal year 1990, the formula was extended into the future by using language such as “the formula allowance for fiscal year 1992 and subsequent fiscal years is \$3,050”. Since fiscal 1992, the subsequent year formula has been increased a number of times. The formula has not been decreased during that time.

In some years, the changes to the makeup of the formula allowance were extensive enough that comparisons to previous years are not relevant. This would be the case in fiscal years 1972 and 1973 following the education funding changes that were part of what is commonly called the “Minnesota Miracle” and in fiscal year 1989 when the formula name was changed from foundation formula to general education formula and many categorical programs were eliminated with the funding for those programs combined with the formula allowance.

In the fiscal years between 1958 and 2007 when comparisons are valid, the formula allowance has been decreased by legislative action, either by decreasing the formula in the law or through pro-ration of aid three times. In one of those cases, through the aid pro-ration, the formula amount that was funded was lower than the formula amount funded in the previous year¹⁴.

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⁵ Laws 1978, Chapter 764, Article 1, Section 47 set the formula at \$1,155 for FY 1980; Laws 1979, Chapter 334, Article 1, Section 8 increased that formula to \$1,182.

⁶ Laws 1978, Chapter 764, Article 1, Section 49 set the formula at \$1,220 for FY 1981; Laws 1979, Chapter 334, Article 1, Section 9 increased that formula to \$1,265.

⁷ Laws 1986, First Special Session, Chapter 1, Article 9, Section 15 set the formula at \$1,700 for FY 1988; Laws 1987, Chapter 398, Article 1, Section 6 increased that formula to \$1,720.

⁸ Laws 1987, Chapter 398, Article 1, Section 11 set the formula at \$2,735; Laws 1988, Chapter 718, Article 1, Section 1 increased that formula to \$2,755.

⁹ Laws 1988, Chapter 718, Article 1, Section 1 set the formula at \$2,800 for FY 1990; Laws 1989, Chapter 329, Article 1, Section 6 increased that formula to \$2,838.

¹⁰ Laws 1999, Chapter 241, Article 1, Section 14 set the formula at \$3,875 for FY 2001; Laws 2000, Chapter 489, Article 2, Section 15 increased that formula to \$3,964. However, \$50 of this increase, from \$3,875 to \$3,925 was due to language in Laws 1999, Chapter 241, Article 1, Section 64 that increased the FY 2001 formula by \$50 if the November 1999 state budget forecast projected adequate revenue to fund that increase.

¹¹ Laws 1979, Chapter 334, Article 1, Section 10; Laws 1981, Chapter 358, Article 1, Section 28 and Laws 1981 First Special Session, Chapter 2, Section 5.

¹² Laws 1981, Chapter 358, Article 1, Section 21; Laws 1981 First Special Session, Chapter 2, Section 5; Laws 1981, Third Special Session, Chapter 2, Article 2, Section 5

¹³ See the general reduction in Laws 1981, Third Special Session, Chapter 2, Article 2, Section 2, Paragraph mm.

¹⁴ For FY 1983, the funded formula was \$1,313 compared to a formula of \$1,333 in FY 1982.

TABLE 3

Education Formula Allowance

For adjustments in change dollars and percents, see notes.

School year 1957-58 is fiscal year 1958.

School Year	Statutory Formula	Adjusted Annual Ch	Adjusted % Change	School Year	Statutory Formula	Adjusted Annual Ch	Adjusted % Change
1957-58	240			1980-81	1,265	83	7.0%
1958-59	240	0	0.0%	1981-82	1,333	68	5.4%
1959-60	270	30	12.5%	1982-83	1,346	-20	-1.5% adjusted (b)
1960-61	270	0	0.0%	1983-84	1,475	129	9.6%
1961-62	275	5	1.9%	1984-85	1,475	0	0.0%
1962-63	285	10	3.6%	1985-86	1,585	110	7.5%
1963-64	309	24	8.4%	1986-87	1,690	105	6.6%
1964-65	315	6	1.9%	1987-88	1,720	30	1.8%
1965-66	321	6	1.9%	1988-89	2,755		(a)
1966-67	324	3	0.9%	1989-90	2,838	83	3.0%
1967-68	345	21	6.5%	1990-91	2,953	115	4.1%
1968-69	355	10	2.9%	1991-92	3,050	97	3.3%
1969-70	365	10	2.8%	1992-93	3,050	0	0.0%
1970-71	404	39	10.7%	1993-94	3,050	0	0.0%
1971-72	600		(a)	1994-95	3,150	0	0.0% adjusted (c)
1972-73	750		(a)	1995-96	3,205	55	1.7%
1973-74	788	38	5.1%	1996-97	3,505	0	0.0% adjusted (d)
1974-75	825	37	4.7%	1997-98	3,581	76	2.2%
1975-76	900	75	9.1%	1998-99	3,530	79	2.2% adjusted (e)
1976-77	960	60	6.7%	1999-200	3,740	167	4.7% adjusted (f)
1977-78	1,030	70	7.3%	2000-01	3,964	118	3.2% adjusted (g)
1978-79	1,095	65	6.3%	2001-02	4,068	104	2.6%
1979-80	1,182	87	7.9%	2002-03	4,601	104	2.6% adjusted (h)
				2003-04	4,601	0	0.0%
				2004-05	4,601	0	0.0%
				2005-06	4,783	182	4.0%
				2006-07	4,974	191	4.0%

- (a) comparison not valid because of major formula changes & composition
- (b) comparison adjusted, while statutory formula remained at \$1,346, the appropriation funded only \$1,313 due to a general appropriation reduction.
- (c) \$100 formula increase, supplemental and referendum revenue are decreased by the same amount.
- (d) \$300 increase offset by "roll-in" of training and experience revenue and transportation revenue
- (e) \$130 of training and revenue "rolled-out" of the formula.
- (f) \$43 of graduation rule revenue "rolled-in".
- (g) \$67 of district cooperation revenue "rolled-in", \$39 of the formula restricted to staff development
- (h) \$415 of referendum revenue and \$14 of assurance of mastery revenue "rolled in".