Understanding the K-12 General Education Funding Program

1998-99 School Year
(revised)

Abstract: The General Education Program is the method by which school districts receive the majority of their financial support. This Money Matters summarizes the various components of the general education program for the 1998-99 school year (fiscal year 1999).

The General Education Program is the method by which school districts receive the majority of their financial support. Two goals of the general education program are to provide adequate funding for the operation of the basic education program and to equalize differences in ability to raise revenue because of difference in property wealth between school districts. The general education program is funded by a combination of state aid (from state collected taxes) and local property taxes.

For the 1998-99 school year (fiscal year 1999), the ten components of the general education program are:

1. Basic General Education Formula Revenue

The basic general education formula establishes the base level of per pupil unit funding for the 353 school districts in Minnesota. The general education aid is determined by subtracting the amount raised by the general education levy (local property taxes) from the formula allowance. The legislature sets both the basic formula allowance and the general education levy in law for each school year.
The formula allowance is a per pupil unit amount. To determine pupil units a weighting system is used:

\[ K = 0.53 \text{ pupil units}; \text{ grades 1-6} = 1.06 \text{ pupil units}, \text{ grades 7-12} = 1.3 \text{ pupil units}. \]

### Table 1.

<table>
<thead>
<tr>
<th>School Year:</th>
<th>Formula Allowance:</th>
<th>Levy:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-92</td>
<td>$3,050</td>
<td>26.4% adjusted net tax capacity rate</td>
</tr>
<tr>
<td>1992-93</td>
<td>$3,050</td>
<td>27.6% adjusted net tax capacity rate</td>
</tr>
<tr>
<td>1993-94</td>
<td>$3,050</td>
<td>30.7% adjusted net tax capacity rate</td>
</tr>
<tr>
<td>1994-95</td>
<td>$3,150</td>
<td>34.9% adjusted net tax capacity rate</td>
</tr>
<tr>
<td>1995-96</td>
<td>$3,205</td>
<td>34.2% adjusted net tax capacity rate</td>
</tr>
<tr>
<td>1996-97</td>
<td>$3,505</td>
<td>40.8% adjusted net tax capacity rate</td>
</tr>
<tr>
<td>1997-98</td>
<td>$3,581</td>
<td>37.4% adjusted net tax capacity rate</td>
</tr>
<tr>
<td>1998-99</td>
<td>$3,530</td>
<td>36.9% adjusted net tax capacity rate</td>
</tr>
</tbody>
</table>

The property tax level for the general education levy is set as a tax capacity rate (percentage). This rate is multiplied times the adjusted net tax capacity (ANTC) of the school district to determine the local levy. The ANTC is an adjusted total of the property value in the district.

The general education formula is an “equalized” formula; that is the state pays in aid the difference between what is raised by a local levy and a guaranteed revenue amount.

For the 1998-99 school year, the basic allowance is $3,530 per pupil unit and the general education tax capacity rate is 36.9 percent (.369).

If the formula allowance ($3,530) is divided by the tax capacity rate (.369), the quotient is $9,566. The relationship of a district’s adjusted net tax capacity per pupil unit to this number ($9,566) indicates how much of the basic general education revenue the district will receive from property taxes. If a district’s property valuation per pupil unit is $4,783, the district would receive 50 percent of its revenue from the property tax levy and 50 percent from state aid. If a district’s adjusted net tax capacity per pupil unit is greater than $9,566, that district will receive all of its basic revenue from the general education levy and be “off the formula.”

This relationship can be looked at in another way. When a district makes a levy of 36.9 percent, the state guarantees that the levy will raise $3,530 per pupil unit in basic general education revenue. The state pays the difference between the amount raised by the district’s levy of 36.9 percent and $3,530 per pupil unit.

This relationship can be carried further by dividing the $3,530 by 36.9 percent which equals $95.66. For every 1 percent of tax capacity the district levies, the state guarantees revenue of $95.66 per pupil unit. In a district where 1 percent of tax capacity raises $40 per pupil unit, the state pays the remaining $55.66. In a district where 1 percent of tax capacity raises $95.66 or more per pupil unit, the state pays no general education aid. The basic general
education aid makes up the difference between what 1 percent of tax capacity raises in a district and $95.66 per pupil unit for each percent levied.

Several restrictions also apply to the basic general education revenue:

A. An amount equal to .06 times the pupil units in kindergarten through grade six times the formula allowance must be used for class size reduction in grades kindergarten through grade six.

B. An amount equal to one percent of the per pupil basic formula amount ($35.30) must be spent for staff development. This one percent can include any staff development spending funded via the Graduation Standards Implementation component of the general education program.

There are several components of general education revenue in addition to the basic formula allowance. These additional components recognize factors that increase the costs of operating an educational program.

2. Basic Skills Revenue

Basic skills revenue begins in the 1998-99 school year, and includes the former Compensatory, Limited English Proficiency (LEP), LEP concentration, and Assurance of Mastery revenues. While these revenues are combined into a single category, the funding available for Basic Skills revenue is based on existing formulas for the individual components. The components are:

• Compensatory revenue. School sites where pupils eligible for free and reduced priced lunches attend receive Compensatory revenue based on the number of eligible pupils at the site. Compensatory revenue increases as the percent of free and reduced price pupils at a particular school site increases (however, the percent is capped).

• Limited English Proficiency. Districts receive LEP revenue based on the cost of providing services to students with limited proficiency in English. In addition, a per pupil amount is provided to districts with concentrations of LEP students. The per pupil funding increases as the concentration increases (though the concentration percentage is capped).

• Assurance of Mastery Revenue. Districts that identify direct instructional services to assure that K-8 pupils master learner outcomes in communications and math are eligible for state aid up to $22.50 per K-8 pupil unit. The state aid must be matched by other district revenue.

All school districts will receive some portion of approximately $240 million in basic skills revenue in the 1998-99 school year. (The $225 million is based on approximately $185 million in Compensatory revenue, $25 million in the LEP revenues, and $15 million in Assurance of Mastery revenue.)

3. Sparsity Revenue

Sparsity revenue provides additional revenue for small and isolated schools. This revenue acknowledges the higher cost of necessarily small education programs. Options to increase the number of students would require students to travel an unacceptable amount of time. There are two parts to the sparsity formula, one for secondary schools and one for elementary schools. The secondary school sparsity formula takes into account a secondary school’s
enrollment, distance from the secondary school to the nearest secondary school and the geographic area of the secondary school attendance area.

The elementary sparsity formula provides additional funding for elementary schools that average 20 or fewer pupils per grade and that are 19 miles or more from the nearest elementary school.

Districts that are relatively small in enrollment and large in geographic area tend to have the largest sparsity allowances. About 69 districts receive a total of about $10 million in sparsity revenue in the 1998-99 school year.

4. Operating Capital Revenue

Operating Capital Revenue replaces the capital expenditure facilities and capital expenditure equipment formulas. The operating capital formula has a component representing the former equipment formula ($68 per pupil unit) and a component representing the former facilities formula ($100 times the district’s maintenance cost index). Operating capital revenue ranges from $168 to $216 per pupil unit per district in the 1998-99 school year and totals $189 million statewide.

5. Training and Experience Revenue

Training and experience revenue is based on the experience and education of a school district’s faculty. Beginning in the 1998-99 school year, only teachers hired prior to 1996-97 are counted for the purposes of computing a school district’s training and experience revenue. Training and experience revenue ranges from $0 to $218 per pupil unit per district in 1998-99 and totals $99 million statewide.

6. Transportation Sparsity Revenue

Transportation Sparsity Revenue provides districts with additional funding based on the number of pupil units per square mile in the school district. About 323 school districts receive approximately $45 million of transportation sparsity revenue. Revenue amounts per district range from $0 to $486 per pupil unit.

7. Graduation Standards Implementation Revenue

Graduation standards implementation revenue equals $52 per pupil for implementing the state’s graduation rule through staff development (at least $20 per pupil), technology, class size reduction and gifted and talented programs (at least $5 per pupil). An additional $14 per pupil would be added if school districts choose to immediately fully implement the graduation rule for the 1998-99 school year for staff development purposes. Districts which choose to phase-in the graduation standards over three school years would not receive the additional $14 per pupil. Finally, districts whose referendum is still reduced by the $100 reduction from 1993 are eligible for a graduation standards implementation equity adjustment of $34 per pupil in additional revenue for the same purposes. All school districts will receive graduation standards implementation revenue in 1998-99, which totals $70.7 million statewide.

8. Transition Revenue

Transition Revenue is intended to minimize the negative impact of formula changes on individual school district revenue. There are two components of transition revenue for FY 99: transportation transition and compensatory
transition. In the 1996-97 school year the basic formula increased by $170 per pupil unit, representing the "roll-in" of transportation revenue. Transition revenue assures that districts which, in the 1995-96 school year, had received more than $170 in transportation revenue (excluding the amounts reflected in the transportation sparsity revenue and the targeted needs transportation revenue) will continue to receive those amounts as transition revenue.

In the 1997-98 school year, AFDC revenue was replaced with compensatory revenue, and the basis of the formula was changed from pupils receiving AFDC to pupils eligible for free and reduced priced lunches. This change resulted in a reduction in revenue for some districts. Compensatory transition revenue is the difference between what a district would have received in the 1997-98 school year under the AFDC formula and its current year compensatory revenue, but the amount can not be negative.

Transition revenue is an aid and levy combination in the same ratio as the general education. 177 school districts receive transition revenue, amounting to $19 million for the 1998-99 school year.

9. Supplemental Revenue

Supplemental Revenue was originally a grandfather revenue for some school districts. Beginning in the 1993-94 school year, supplemental revenue became a fixed amount. Since the 1993-94 school year, the amount of supplemental revenue has been adjusted twice. First, a district’s supplemental revenue was reduced by the increase in the formula allowance between the 1993-94 and 1994-95 school years ($100) and by 25 percent of increases in training and experience revenue and compensatory revenue between the 1993-94 and 1994-95 school years. Second, supplemental revenue was increased for the 1997-98 school year by the amount of post-secondary replacement aid a district had received in the 1996-97 school year. Supplemental revenue is an aid and levy combination in the same ratio as the district’s general education revenue allowance. About 31 districts receive approximately $5.4 million in supplemental revenue.

10. Referendum Revenue

Referendum revenue allows districts to increase the revenue available in their general fund with the approval of the voters in the district. A referendum to increase the general fund revenue may be held only on the first Tuesday following the first Monday in November (election day) except that elections may be held at a different time if (a) the district is in statutory operating debt and receives commissioner’s approval, (b) the election is held by mail, or (c) the election is held in conjunction with a bond issue and is for operating costs that complement the purpose for which bonds are to be issued. A referendum election may be held in the calendar year before it is levied or one year earlier.

An amount of the referendum levy equal to $315 is equalized at the 100 percent level. Beginning in the 1999-2000 school year, the equalized amount will be $350. For the 1998-99 school year, 283 districts have referendum levies totaling $261 million. In addition, most of those districts receive referendum equalization aid totaling $145 million.

Referendum revenue is capped at an amount equal to 25 percent of the basic general education formula allowance minus $300 ($808 in the 1998-99 school year). District referendum revenue may not exceed this amount except that if a district’s referendum revenue is already above this amount, it may not be increased.

Referendum revenue was reduced by the general education formula increase between the 1993-94 and 1994-95 school years ($100). Also, revenue in excess of $315 per pupil unit was reduced by 25 percent of increases in training and experience revenue and compensatory revenue between the 1993-94 and 1994-95 school years. (These
reductions applied first to supplemental revenue, amounts remaining after the supplemental reduction applied to referenda.) However, in a district with a low fund balance, no supplemental revenue, low adjusted net capacity, and a high referendum amount, the reduction may have been less than the increase in the formula allowance.

Referendum levies approved after November 1, 1992 must be certified on market value rather than adjusted net tax capacity (ANTC). (ANTC provides tax advantages for residential and agricultural property compared to commercial and industrial property, market value treats most property the same.) Districts with referendum levies on ANTC may convert those levies to market value over several years.

Unless set to expire sooner, most referendum revenue will expire July 1, 2000 (after the payable 2000 levy year) and will have to be approved by the voters again to be continued. Districts that convert referendum revenue from ANTC to market value may have several more years before the revenue amount expires.

Page 7 has a chart illustrating the general education formula components that have been described above.

For more information, contact Greg Crowe at 296-7165.

Prepared by:

Fiscal Analysis Department, Minnesota House of Representatives © June 1998