

Education Finance

For the FY 2006-07 biennium, the Governor recommends \$12.4 billion in general fund state aid for K-12 education and early childhood and family education programs. This compares with the November forecast of current law FY 2006-07 education spending of \$12.0 billion, for a total increase of \$391.8 million, or 3.3 percent over current law. The Governor's FY 2006-07 budget recommendation includes \$96.5 million in new property tax recognition shifts. If those shift savings are not included, the Governor's budget increase is \$488.3 million or 4.1 percent over current law. For the FY 2008-09 biennium, the Governor's budget recommendations include total state appropriations of \$12.6 billion, an increase of \$702.6 million from the November forecast appropriations, or 5.9 percent.

School district property tax levies in the Governor's budget recommendations would increase from current law for each year from FY 2007 to FY 2009. Property taxes for FY 2006 (the pay 2005 property taxes already being levied) increased under current law by \$90.5 million from FY 2005, or 7.1 percent, to \$1.4 billion. Levies for FY 2007 (payable in 2006) in the Governor's budget recommendations are estimated to increase by \$311.1 million, or 22.6 percent, from FY 2006, to \$1.7 billion. Compared to current law, the Governor's budget recommendations would increase property taxes for FY 2007 by \$138.2 million, or 8.9 percent, for FY 2008 by \$203.2 million, or 12.3 percent, and for FY 2009 by \$204.5 million, or 11.5 percent.

The following summarizes the Governor's budget initiatives, with the cost expressed as a biennial total, from the general fund unless otherwise noted:

General Education Program

- \$295.3 million in additional state spending to increase the basic formula amount by 2.5 percent per year. In FY 2006, the formula is increased from \$4,601 to \$4,716. In FY 2007, the way that pupils are counted is changed, which results in an increase in the formula simply to neutralize those changes. As a result, the base formula for FY 2007 (the formula equivalent to the \$4,716 in FY 2006) is \$5,111. The \$5,111 is increased by 2.5 percent for FY 2007, or \$128, resulting in a formula of \$5,293.
 - Beginning in FY 2007, instead of the current method of counting pupils, where pupils are weighted by grade level and pupil counts are adjusted to reduce the impact of declining enrollment from one year to the next, all pupils will be weighted as 1.0 pupil units (except for kindergarten students, which will be weighted as 0.5 pupils units). In lieu of the additional weighting for secondary students and the formula for reducing the impact of declining enrollment, the governor recommends new declining enrollment revenue of \$1,310 times the loss in pupils from one year to the next, and a new secondary pupil revenue of \$946 per student in grades 7-12. The new declining enrollment and secondary pupil formulas are cost neutral.
 - The Governor also recommends adjusting all other formulas and equalizing factors to eliminate the fiscal impact of the pupil counting method.

- \$85.9 million in aid and \$6.3 million in local levy for the QComp Alternative Compensation program (replacing the current \$7.4 million appropriation, which is eliminated). This appropriation will provide funding for alternative compensation programs in school districts on a first come, first served basis. The funding will be sufficient to provide funding for approximately half of the state's students. The formula for the revenue is \$260 per pupil, with the full amount coming in state aid for FY 2006. In FY 2007 and later, the revenue will be \$190 per student in state aid and \$70 per student in an equalized levy. QComp revenue will be provided to districts which provide multiple career paths for teachers, instructionally-based accountability, professional compensation, a new 21st century pay schedule for teachers, ongoing applied professional growth and alignment of state staff development plan and set aside funding with their performance pay plans.
- \$31.1 million to add a 2.5 percent inflation factor for each year of the biennium to programs which are not tied to the general education formula (Extended Time, Shared Time and Contract Alternative revenues) and other programs which are recommended to be "de-linked" from the basic formula amounts, so that they do not increase automatically with increases in the basic formula (Compensatory, Post Secondary Enrollment Options and Sparsity revenues).
- \$4.2 million for Hmong Refugee Compensatory revenue. Compensatory revenue is based on counts of students eligible for free and reduced priced lunches as of October first of the previous fiscal year. A large influx of Hmong Refugees is expected during the current fiscal year, after October first. As a result, districts which experience the increase will not receive revenue for those students until FY 2007, rather than FY 2006. The Governor is recommending that pupils that enroll between October 1, 2004 and March 15, 2005 be counted for FY 2006.
- \$986,000 in state aid and \$4.7 million in local levy for FY 2006 for transition revenue for school districts that had pre-Kindergarten programs prior to FY 2004. For FY 2007 and later, the revenue will continue as part of the new transition revenue.
- \$2.0 million in state aid and \$13.9 million in local levy for FY 2007 for a new transition revenue to guarantee school districts general education revenue in FY 2007 that equals what they would have gotten in FY 2007 under the new formulas instituted in FY 2006 plus the amount of levy certified in pay 2005 for levies eliminated in the recommendations for FY 2007 plus \$232 per student.
- \$100,000 in cost due to lost revenue from the elimination of the January 15th deadline for teacher contract settlements. Under current law, districts are penalized \$25 per pupil if they have not settled their teacher contract for the two year period by January 15th of each even-numbered year.
- \$3.1 million in savings in FY 2007 from converting Shared Time aid to a reimbursement program. The savings are one-time savings that come as the funding budgeted for FY 2006 is allocated as FY 2007 expenditures.

- \$7.4 million in FY 2007 for changing the way that pension contributions by school districts are calculated. In 1997, employer contributions were reduced for school districts, and at the same time, the districts' general education allocation was reduced by the same amount. This pension reduction varies greatly among districts.
- \$13.6 million in equalization aid and \$38.0 million in net levy impact for FY 2007 for a new discretionary levy for school districts. The levy will include any Training and Experience revenue the district had received prior to FY 2007, and will allow districts to levy for revenue that had been generated through a variety of miscellaneous levies prior to FY 2007 (repealed levies include reemployment insurance, safe schools, judgment, ice arena, swimming pool, lost interest earnings, tree growth, building lease (only the short-term portion) and severance levies). The gross impact is \$94.8 million in the new discretionary levy, with \$56.8 million in levy savings from elimination of the miscellaneous levies. A portion of the added amount is subject to reverse referendum by voters in the school district.
- \$4.4 million in aid savings and \$6.8 million in additional levy from the elimination of Training and Experience aid, and replacing it with a new equalized Training and Experience levy.
- \$1.4 million in state aid and \$34.3 million in additional levy in FY 2007 from increasing the cap on school district operating referendums from 18.6 percent of the basic formula amount to 28 percent of the basic formula amount. With the current formula for FY 2005 of \$4,601, the referendum cap is \$866. With the Governor's projected basic formula amount and referendum cap increase for FY 2007, prior to the inflationary increase in law, the referendum cap amount would be \$1,616. Second tier equalization would continue up to the new cap amount.
- \$210,000 in reduced Permanent School Fund allocations to reduce General Fund general education program aid due to changes in how the Department of Natural Resources funds minerals management.
- \$1.3 million in general fund general education impact due to increased student attendance from a requirement that students maintain attendance in order to receive their driver's license.
- \$96.5 million in savings to the state general fund from additional property tax revenue recognition shift savings from the Governor's recommendation of higher school district property taxes. School districts are required to recognize 48.6 percent of most of their operating levies in the fiscal year in which the levy is certified. To make this early recognition of property tax levies revenue-neutral to districts, their general education aid is reduced by an equivalent amount, resulting in one-time savings to the state general fund.
- There are several formula changes that have no or minimal fiscal impact, but are still important:

- Due to the elimination of the extra pupil weighting for elementary students, there is no extra dedicated funding for class-size reduction. As a result, the Governor recommends eliminating the Learning and Development (class size reduction) revenue reserve.
- The Governor recommends recalculating the Transportation Sparsity funding formula factors for revenue for FY 2007. The factors were initially (in 1995) calculated based on the relationship between transportation costs per student and population density.
- The Governor recommends changing the way that Equity funding is calculated. Currently, districts receive equity funding based on whether they are in the seven county metropolitan area or not, and where they rank in their region in terms of their referendum amount. Districts with no referendum qualify for only the minimum amount of equity revenue (\$13 per pupil). In addition, districts in cities of the first class (Minneapolis, St. Paul and Duluth) do not qualify for equity revenue. The new equity formula would rank all districts by their referendum amount, and provide equity revenue on a sliding scale to all districts with operating referendums less than 28 percent of the basic formula amount, with maximum revenue for the lowest districts of \$101 per pupil.

Other General Education Programs

- \$896,000 in state aid savings and \$327,000 in new levy from changing the way that abatement aid is calculated. Currently, abatement aid is calculated using preceding year levy information. The Governor recommends that abatement aid be calculated using the information for levies for the third preceding year.
- \$100,000 for a new property tax levy for districts which form joint education administrative districts. The joint education administrative districts would provide administrative functions for multiple districts, while individual districts would retain control of individual school sites. Levy revenue would be used for approved retirement and severance incentives, and other start-up costs related to the joint district.
- \$2.2 million in new property tax levies for districts that have busses manufacture by the Carpenter bus company in their fleet. Districts that have those busses, which have been determined to have potentially defective welds, will be allowed to levy up to \$30,000 per bus to mitigate the replacement cost of those busses.
- \$1.9 million for inflationary increases in Nonpublic Pupil Aid, Nonpublic Pupil Transportation and Tribal Contract aid. Similar to the changes in the general education program, the Governor recommends “de-linking” these programs so that they do not increase automatically with increases in the basic formula. In addition, the programs would be increased by 2.5 percent per year for inflation, since they are not connected to the increase in the basic formula. In addition, the Governor recommends de-linking the First Grade Preparedness program, but not providing an inflationary increase in that aid.

Education Excellence

- \$11.5 million to create a new “Get Ready, Get Credit” program, and to enhance existing Advanced Placement and International Baccalaureate (AP/IB) funding. The appropriation will allow the following: public schools can participate in the ACT Educational Planning and Assessment System for career planning, assessment, instructional support and evaluation; public school high school students can earn college credit for mastery of college level courses taken in high school, and; teachers will receive a stipend based on the number of students passing AP/IB tests.
- \$1.0 million in savings from transferring Best Practices grants to the Department of Education budget, and then reducing the grant amount.
- \$3.0 million for an increase in the state’s existing online learning program.
- \$2.0 million to create 20 model career and technical programs at junior high or middle schools in preparation for a change in the existing Career and Technical Revenue formula for FY 2009 and later.

Special Education

- \$674,000 in savings in Regular Special Education expenditures as a result of fiscal monitoring of the relationship between the Faribault public schools and the Minnesota State Academies for the deaf and blind in Faribault. The initial finding of the fiscal monitoring indicates that mainstreaming contract between the Faribault public schools and the State Academies is not being executed as designed. If, after the findings are finalized, the initial findings are accepted, the Faribault public schools will have its Special Education funding reduced. (The Governor is recommending that the budget for the Minnesota State Academies, a state agency, be increased by an amount equivalent to the lost Faribault public schools revenue to minimize the impact on the Academies.)
- \$2.2 million in equalization aid and \$17.5 million in levy increases in FY 2007 to allow districts to levy to fund a 4 percent increase in special education funding. The Governor recommends that districts be able to levy an additional 4 percent for FY 2008 and later. The added levy is subject to reverse referendum by voters in the school district.
- \$21.9 million to increase the statewide cap on Special Education Excess Cost aid.
- In non-funding related special education recommendations, the Governor is also requesting that all but \$2 million of Special Education Excess Cost funding be changed from current year funding to funding based on prior year expenditures, and that referendum revenue be excluded from the definition of general education for the purposes of calculating Special Education Excess Cost aid.

Facilities and Technology

- \$2.6 million in equalization aid and \$13.6 million in local levy for FY 2007 to allow districts to levy for deferred maintenance costs. Districts will be eligible to levy for up to \$50 per pupil using a sliding scale based on the ratio of the district's average building age to 35 years. This levy will be subject to reverse voter referendum. The added levy is subject to reverse referendum by voters in the school district.
- \$9.1 million for school district telecommunications costs. Districts will be eligible for reimbursement of 90 percent of their telecommunications costs that are not reimbursed under the federal E-rate program, and that exceed a fixed threshold. For FY 2006 the threshold is \$15 per pupil. For FY 2007 and later, the threshold is \$18 per pupil.
- \$692,000 in savings and \$3.1 million in local levy reduction in FY 2007 from the reduction in the maximum effort school loan tax rate. The methodology for adjusting the maximum effort tax rate due to the 2001 tax classification rate changes did not account for the unique mix of property tax types in school districts with maximum effort school loans. The tax rate reduction recommended by the Governor would more accurately reflect the mix of property types in those districts. In addition to the savings to the general fund and the reduction in local property taxes, the maximum effort school loan fund will see reduced payments from those districts of \$793,000, which will ultimately increase general fund costs by that amount to replace those lost payments.

Libraries

- \$1.3 million for the Electronic Library of Minnesota statewide database licensing program to replace federal funds which it has been determined do not qualify to be expended for this purpose.

Early Childhood and Family Support

- \$369,000 in savings from a reduction in School Readiness program funding. The savings is offset by a \$369,000 increase in the Department of Education budget to add staff to refocus School Readiness toward preparing 4 and 5 year old children for kindergarten and increasing program oversight and accountability.
- \$1.3 million in additional funding for Early Childhood Health and Development Screening. The additional funding will be used to increase reimbursement for screenings for three year olds, helping to ensure early screening.

Self-Sufficiency and Lifelong Learning

- \$252,000 in additional funding for Adult Basic Education due to the reallocation of capped funding. Currently, eight districts have their funding capped under the Adult Basic formula. Capped funds are cancelled back to the general fund. Instead of allowing the funding to cancel, the Governor recommends that the funding be reallocated to other programs, some of which have waiting lists for services.

- \$2.0 million for intensive English Instruction for new adult refugees. This appropriation, available for the current biennium only, would allow Adult Basic Education providers to add English a second language instruction to accommodate the large number of refugees entering Minnesota.

Minnesota Department of Education

- \$2.4 million in savings from a cut to the agency's operating budget. This reduction amounts to 5.3 percent of the agency's base budget of \$46 million.
- \$150,000 in savings through elimination of funding in the agency's operating budget which currently subsidizes all state agency access to the Minnesota State Colleges and Universities Project for Automated Libraries System.
- \$2.4 million in one-time funding to develop an interactive computer-based science test for students in grades 5 and 8, and students in high school after completion of biology class.
- \$1.9 million to develop and implement a value-added index assessment model for public schools. \$300,000 in FY 2006 is for the Department of Education to develop the model, \$1.6 million is for implementation of the model in FY 2007.
- \$500,000 per year starting in FY 2007 to develop alternative teacher preparation programs leading to increasing the number of licensed teachers in high need areas.
- \$500,000 to administer a new corporate income tax credit for businesses which make donations to federal tax-exempt charitable organizations that provide scholarships to students attending K-12 private schools in Minnesota.
- \$369,000 for staff costs related to the School Readiness change discussed in the Early Childhood and Family Support section above.
- \$20,000 for rulemaking for the Board of School Administrators.
- \$125,000 for methamphetamine education materials.
- \$25,000 to administer newly created single purpose charter school sponsors.

Minnesota State Academies for the Deaf and Blind

- As discussed in the Special Education section, preliminary indications from fiscal monitoring of the relationship between the State Academies and the Faribault public schools may result in reduction of special education funding for the Faribault public schools. The Governor is recommending \$899,000 in additional funding for the State Academies in order to preserve the current level of special education services provided to their students.

Perpich Center for Arts Education

- \$336,000 in savings due to a 2.6 percent reduction in the agencies operating budget. The Governor recommends that the entire reduction be taken from the Center’s Professional Development and Research Group.

Implications

As is shown in the table below, total revenue increases with the Governor’s proposals will be 2.4 percent for FY 2006 and 6.4 percent for 2007. The increase in 2007 is driven in part by a significant (20.7 percent) increase in the expected amount of operating referendum passed by district with the increase in the referendum cap amount.

Total School District General Fund Revenue (State Aid & Local Levy)						
Revenue per average daily membership						
	Operating Ref. Rev.	Percent Change	Other Revenue	Percent Change	Total Revenue	Percent Change
2004	535	47.0%	7,678	0.0%	8,217	2.2%
2005	636	18.9%	7,687	0.1%	8,323	1.3%
2006	671	5.5%	7,915	3.0%	8,586	3.2%
2007	799	19.1%	8,392	6.0%	9,191	7.1%
2008	865	8.2%	8,422	0.4%	9,287	1.0%
2009	960	11.0%	8,438	0.2%	9,397	1.2%

source: Minnesota Department of Finance

The Governor’s proposal includes a number of changes that are revenue neutral from a state perspective, both in formulas (Equity Revenue and Transportation Sparsity Revenue, for example) and in the way that pupils are counted. When these types of changes are made, even if they are made in a way that is revenue neutral for all districts, because no district is like another, or the average district, these types of changes will always result in shifts in revenue between districts. Two examples are:

- Equity revenue: the Governor recommends recalculating the Equity Revenue formula, which results in reallocation of \$5.3 million or 13 percent of Equity revenue to Minneapolis, St. Paul and Duluth school districts, which had not previously qualified for the revenue. Districts without a referendum (42 non-metropolitan districts) see increases over 500 percent in equity revenue, while some metropolitan districts lose half or all of their equity revenue.

- Pupil counting: the Governor recommends changing how pupils will be counted and then adjusting all formulas and equalizing factors by the average change in pupils statewide. The statewide pupil change was a reduction of 16.7 percent. However, the actual change in individual school districts ranges from 20.9 percent reduction to 11.5 percent reduction, with an even broader range of pupil count changes if charter schools are included. As a result, all formulas and equalizing factors are adjusted by 16.7 percent, but the effect to districts varies from 20.9 percent to 11.5 percent.
- Transportation sparsity revenue: the Governor recommends recalculating the factors used in the transportation sparsity formulas. The overall change is a reduction in revenue of 1.0 percent statewide. However, on an individual school district basis, the change in revenue ranges from reductions of 50 percent for some metropolitan schools and 5 to 7 percent for some rural schools to increases of 20 to over 100 percent for some metropolitan area schools.

In addition, in the past when these types of changes have been made, there have also been unforeseen consequences that can have significant negative revenue implications for individual school districts. Ultimately, even though the average increase in general fund revenue over current law for FY 2007 is 6.1 percent, and even with the inclusion of new transition revenue to mitigate the impact of these changes, revenue changes relative to current law vary significantly, from a low of 4.1 percent to a high of 13.0 percent.

In total, the Governor's recommended school district property tax amount increases in FY 2007 by 9.6 percent. Using just the general fund, the Governor's property tax levy amount is 7.0 percent over current law. However, in individual districts, the change varies greatly, from a high of 127.9 percent increase to a low of 48.4 percent decrease. 11 districts have reduced property tax amounts, 155 districts have increases over 10 percent. 83 of those 155 districts will see increases over 15 percent.

For further information on Education Finance related issues contact Greg Crowe at 296-7165 or greg.crowe@house.mn