

Minnesota PreK-12 Education Finance System Overview: Committee Overview

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MINNESOTA HOUSE OF REPRESENTATIVES RESEARCH AND FISCAL DEPARTMENTS

January 10, 2023

Overview for Tuesday, January 10, 2023

1. Overall General Fund Budget, pages 17 to 19 and 61 (see forecast document)
2. Total Revenue for School districts consisting of Aid and Levy, pages 31 to 33
3. House Fiscal Statewide Tracking
4. General Education Baseline District-by-District Printout (11" by 17" handout)
5. Property Taxes pages 20 to 26
6. One Page Levy Handout for Pay 22, Levy by Category and Pie Chart
7. Property Tax Statewide Tracking Sheet
8. Special Education Funding, pages 35 to 37
9. Special Education District-by-District Printout (8 ½ by 11 printout)

Presentation Topics

1. Education Funding Principles
2. Legal Context for School Finance
3. Fiscal Context for School Finance
4. How School Funding Works
5. Major Components of the School Finance System
6. State Budget Overview
7. Trends and Issues
8. Where to go for Additional Information

Education Funding Principles

1. Goals of a School Funding System
2. Adequacy of Education
3. Equity for Students
4. Equity for Taxpayers

Goals of a School Funding System

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.

Equity for Students

Equity for Students:

- Equity for students with different challenges
- Equity for students located in different areas
- Equity for students regardless of choice of program

Equity for Taxpayers

Equity for Taxpayers:

Tax burden to provide adequate basic funding is uniform throughout the state, regardless of local tax base. This can be accomplished with either:

- full state funding; or
- a mix of state funding and a uniform local property tax levy.

Additional revenue to supplement basic programs is equally available to all districts, regardless of geographic location (state aid or equalized levy).

Equalizing factors are indexed to state average tax base / student to maintain stable state share of funding.

Adequacy of Education

- Ensures that all local education agencies have the resources needed to provide an adequate basic education for all students, regardless of geographic location or student demographics
- Basic formula covers the cost of providing an adequate basic education for students without special needs
- Additional funding for excess costs including for high-need students, students with special education needs, and school organizations facing higher costs due to unique school district characteristics

Legal Context for School Finance

School Finance is governed by:

- The Minnesota Constitution;
- State Laws (Legislation and Rules);
- Federal Laws; and
- Agency Guidance

Minnesota Constitution Article 13, Section 1

...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.

Courts Interpret the Constitution and Statutes

- The Minnesota Supreme Court decided the *Skeen* Decision in 1993
- The State of Minnesota is currently being sued in an action known as the *Cruz-Guzman* lawsuit and portions of the suit are before various levels of Minnesota's court system.

Skeen vs. State of Minnesota, August 1993

The state supreme court found, in its words:

...education is a fundamental right in Minnesota.

...our (the court's) 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...

State Laws and Rules

Minnesota Statutes is the name for the collected state laws of a general and permanent nature. The statutes are organized by subject area. The following chapters are the primary laws governing school districts.

[120A](#) Compulsory Attendance, School Calendar

[122A](#) Q Comp, Staff Development

[123A](#) ALCs, District Reorganization

[123B](#) Fee Law, Facilities Funding, UFARS, SOD, Transportation

[124D](#) Enr. Options, PSEO, Charter Schools, Community Ed, Integration, Nutrition

[125A](#) Special Education and Special Programs

[125B](#) Technology, Telecommunications/Internet Access Equity Aid

[126C](#) General Education Funding, Levies, District Borrowing, Capital loans

[127A](#) MDE responsibilities, Payment Metering

Legal Context: Laws and Rules

Session Laws:

Education Omnibus Bill and other legislation includes amendments to statutes, uncodified (one-time) laws, and appropriations.

Statutes & Session Laws available online at:

<https://www.revisor.mn.gov/pubs>

MDE Guidance:

Superintendent E-mails

School Business Bulletins

UFARS Manual

MARSS Manual

SERVS Webinars

Fiscal Context for School Finance

Education funding in Minnesota is mainly based on the number of pupils the school serves and depends on:

- state aid payments from the state general fund budget;
- local funding from the property tax system; and
- federal funds including permanent moneys and one-time federal funding for things like the COVID response.

State Aid Payments

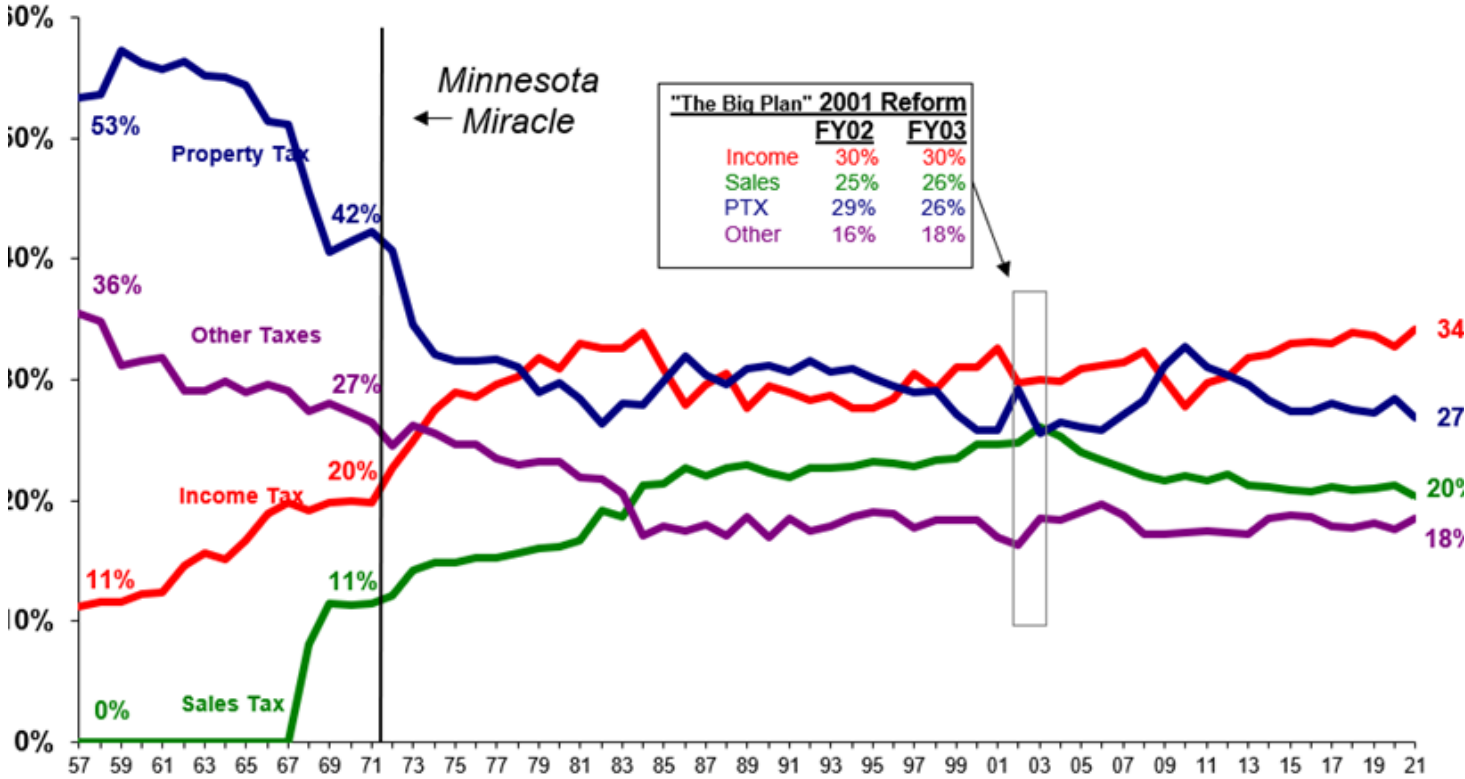
About two-thirds of Minnesota's total funding comes from state aid payments.

The state's revenue comes from the various taxes.

The state spends its money in a variety of program areas including K-12 education.

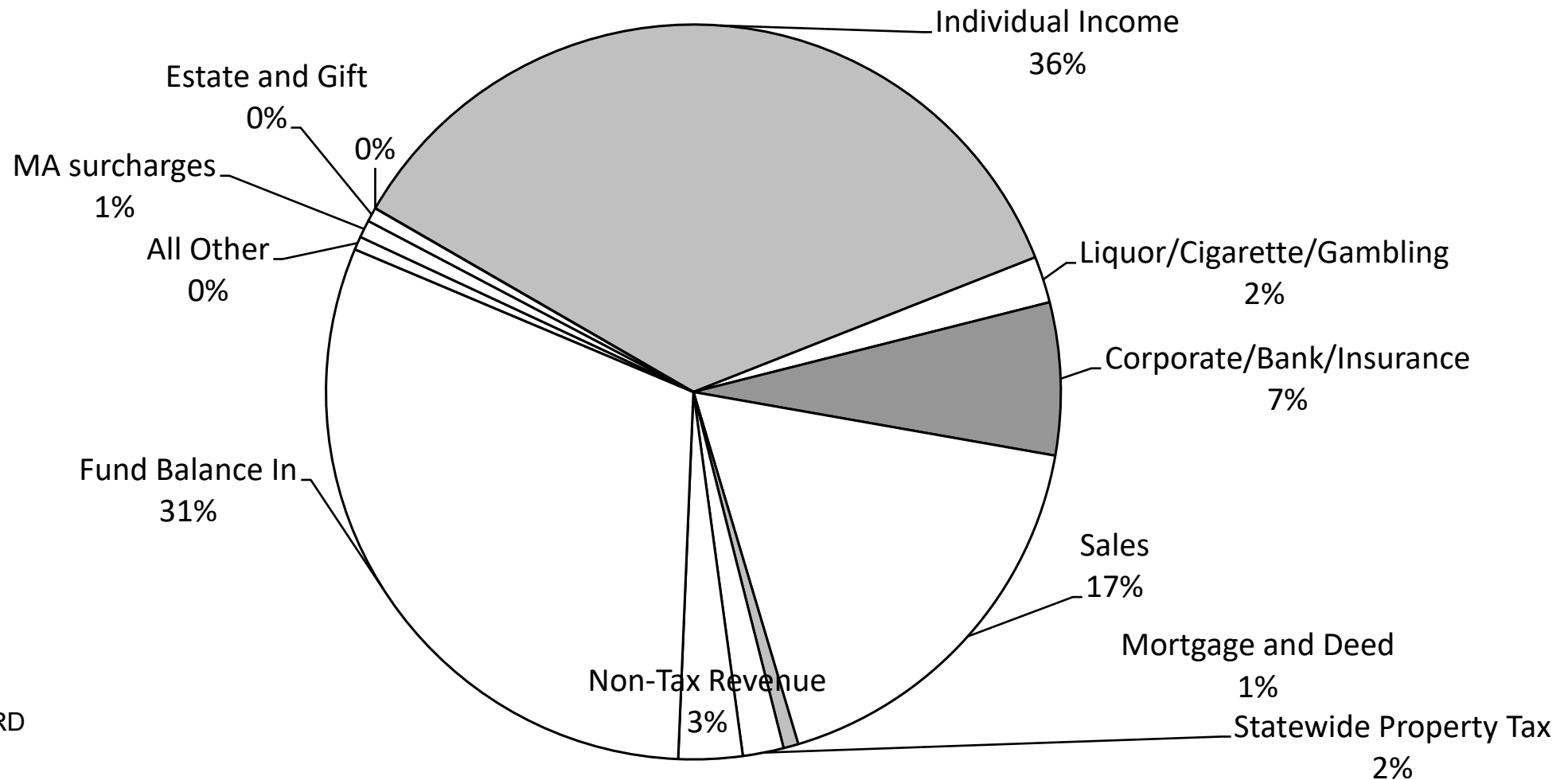
State and Local Tax Revenue History

History of Major Taxes Percent Share
FY 1957 - 2021



Source: Minnesota Department of Revenue and Price of Government, November 2021
Includes sales tax rebates FY 1999-2001

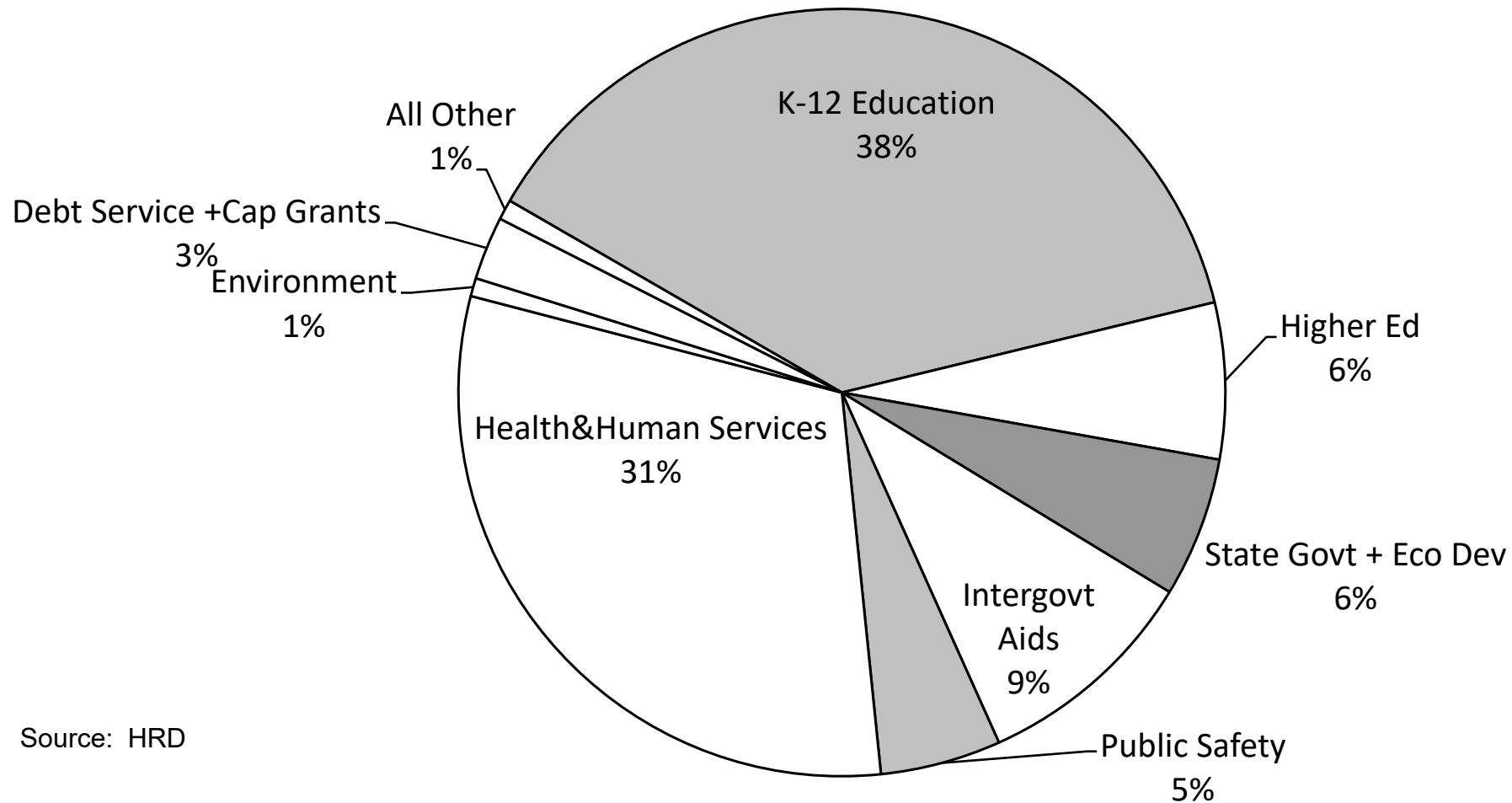
Where the Money Comes From: FY 23 State General Fund Resources \$42.267 Billion



Source: HRD

Where the Money Goes

FY 23 State General Fund Spending \$27.092 Billion



Source: HRD

Local Property Taxes and Other Local Revenue

About 20 percent of Minnesota's school funding comes from the property tax and another 7 percent comes from other local sources including fees, sales, and interest payments.

Property tax revenue varies substantially from school district to school district.

While property taxes are a smaller source of revenue for schools, a significant share of the state's property taxes go to school districts.

Charter schools do not receive property tax revenue.

Property Tax Relief

There are three major ways state helps reduce tax burden on property owners:

- Providing programs with **Direct State Aid**;
- **Equalization** – where the state pays for a portion of levy program based on certain criteria. Most equalization calculations are a ratio between residential pupil units against ANTC valuation.
- **Tax Credits** – State will pay portion of property tax of homeowner after levy is spread. An example is the School Building Bond Agricultural Credit.

Property Tax Terminology

Property Tax Base

Two tax bases used for school levy calculations:

Referendum Market Value

- = Estimated market value, excluding:
 - Ag Land & Buildings (Note: house, garage, and one acre are not exempt)
 - Seasonal Recreational Residential
- Used only for operating referendum, local optional, transition and equity levy calculations

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'

Note: For long-term facilities maintenance revenue, a variation of ANTC excluding $\frac{1}{2}$ of the value of agricultural land is used to calculate the state and local shares of the revenue

Property Tax Terminology

Property Tax Base (continued)

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

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

Property Tax Class Rates

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

Agricultural Land and Buildings

First \$1,890,000	0.50%	(changes annually, this is FY23's class rate)
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Over \$1,890,000	1.00%
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Commercial and Industrial	First \$150,000	1.50%
	Remainder	2.00%

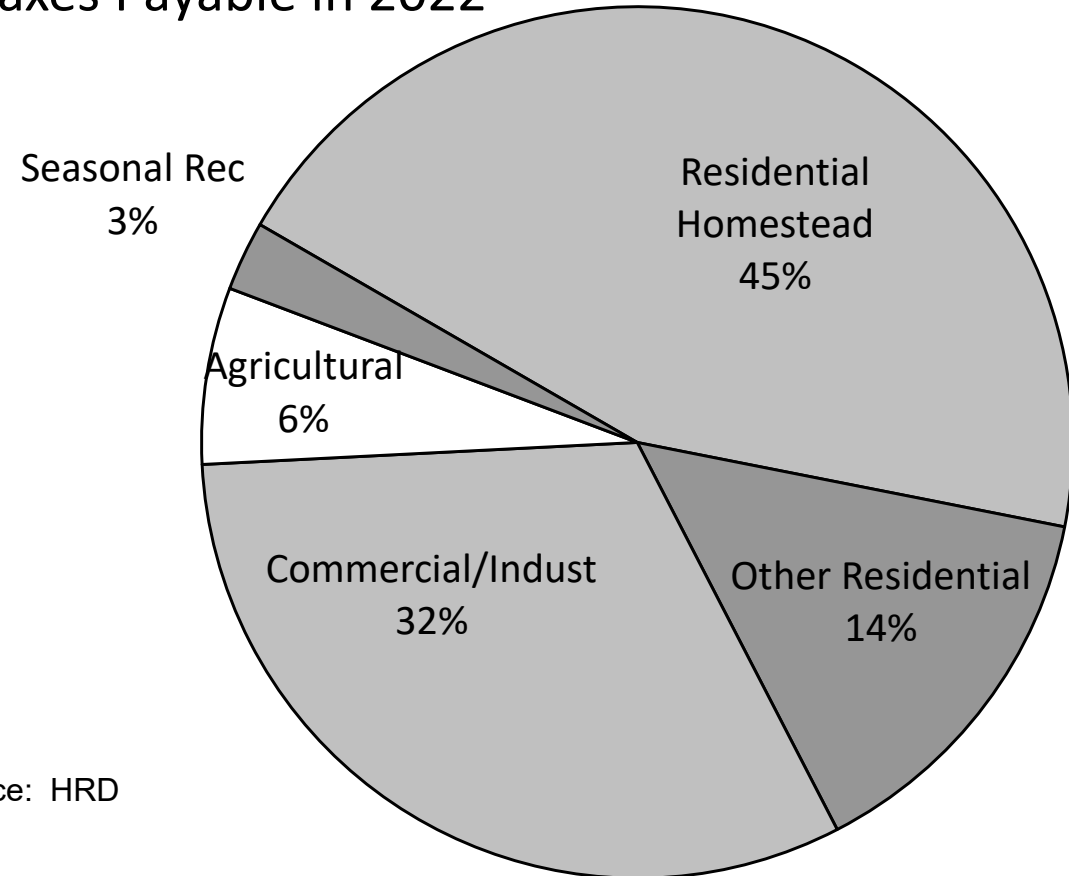
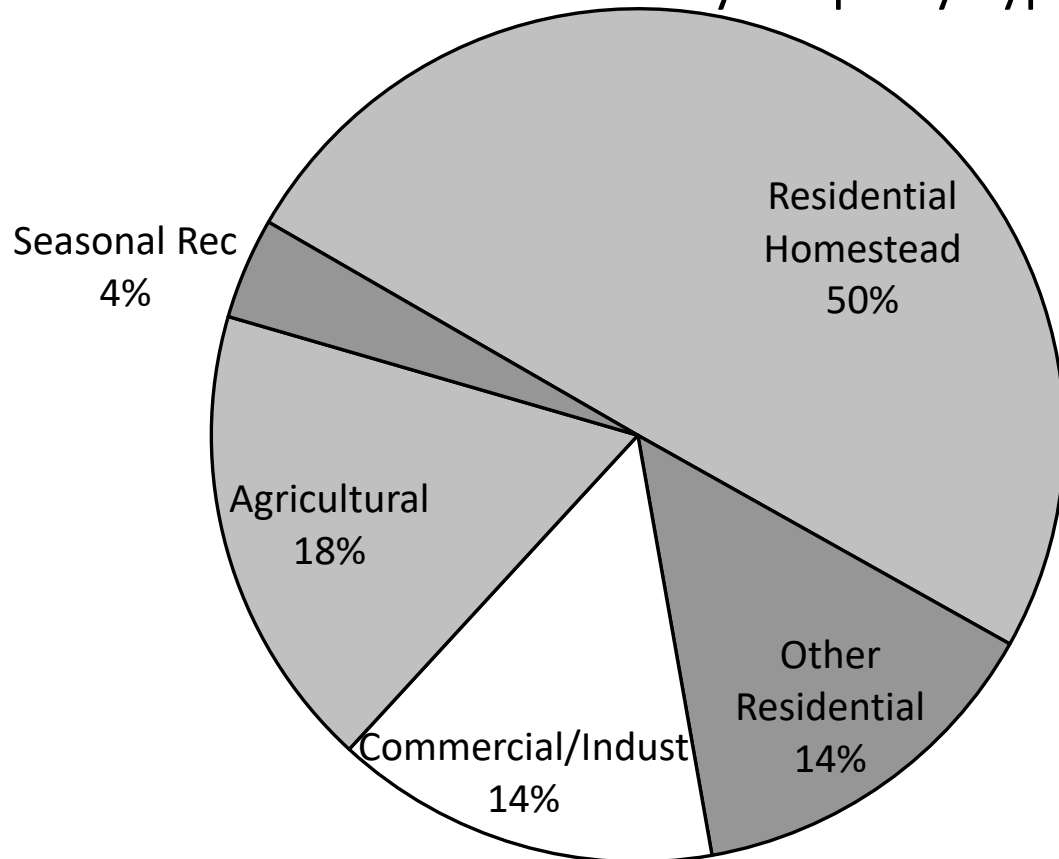
Seasonal Rec. Residential	First \$500,000	1.00%
	Remainder	1.25%

Property Taxes Market Value and Taxes Paid

Market Value
(\$839 Billion)

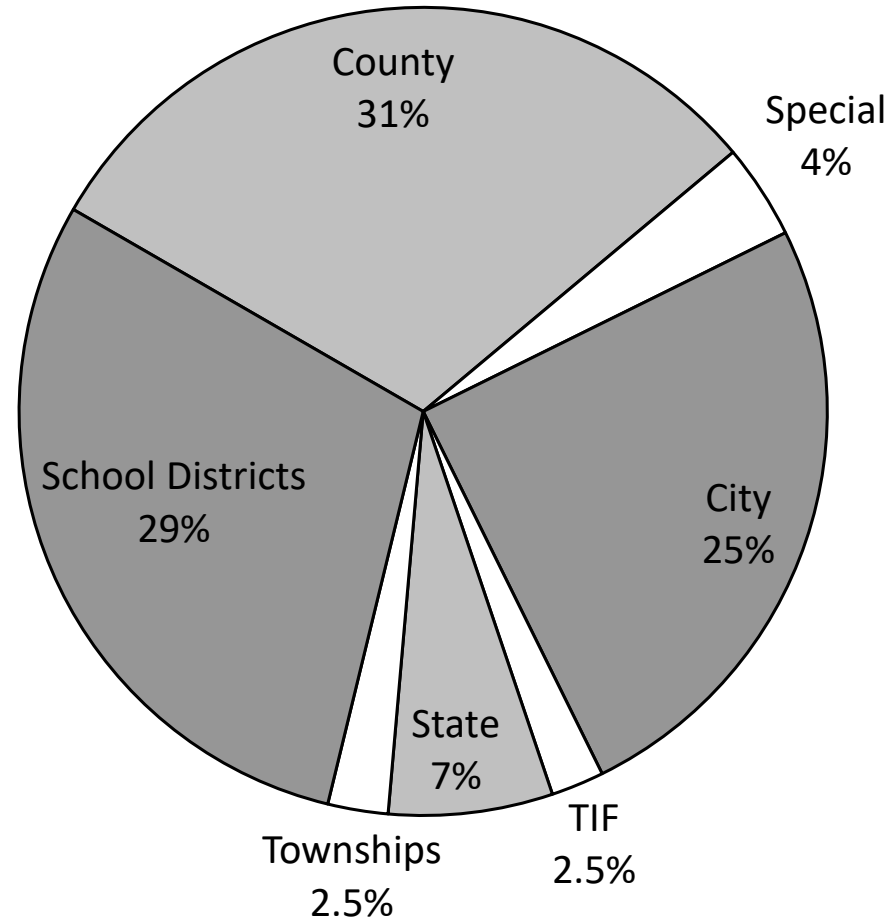
Taxes Paid
(\$11.774 Billion)

by Property Type, Taxes Payable in 2022



Source: HRD

Property Taxes by Type of Government Payable in 2022: \$11.774 Billion



Source: HRD

Funding Based on Pupils

Minnesota's schools are primarily funded based on the number of pupils actually served at that school district (or charter school's schools). Funding is generally provided at the school district (charter) level, although some formulas are calculated at the school site.

The greater the number of students served, the more money the school receives.

Some formulas, such as compensatory revenue and English Learner revenue are dependent on student demographic information or some subset of total district enrollment.

Counting Pupils

To count students in Minnesota, an FTE style measurement of students called “average daily membership (ADM)” is the starting place.

- **Resident ADM** are the public school students who live within the district’s boundaries.
- **Adjusted ADM** counts the students actually attending each school district or charter school.
- For funding purposes pupils are weighted by grade level with full-time kindergarten and elementary pupils weighted at 1.0 and secondary pupils weighted at 1.2. This count of pupils is called weighted average daily membership or **Resident Pupil Units** for the resident pupil count and **adjusted pupil units** for the weighted count of pupils served.
- **Adjusted pupil units** is the student count used for most of Minnesota’s school funding formulas.

Funding Based on Costs

While most of the money provided to Minnesota's schools is through a per pupil formula, some programs, like special education, are funded on a partial cost reimbursement basis, where the district receives a percentage of their total spending for that program.

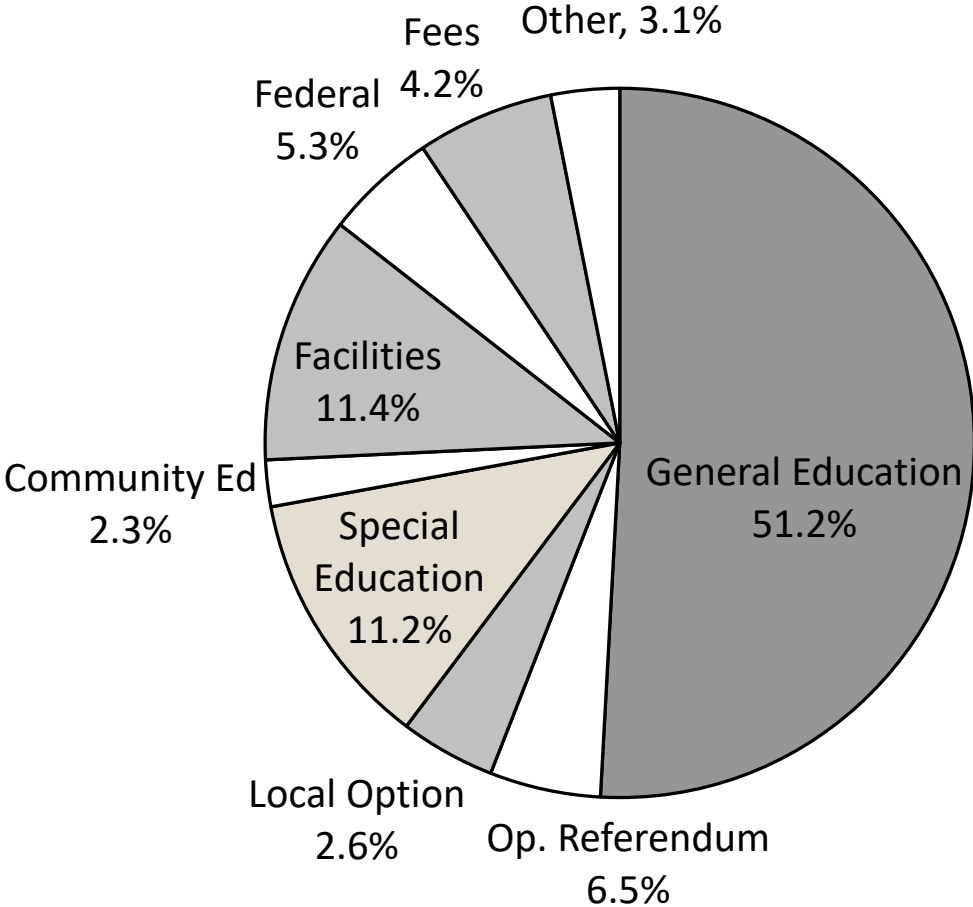
Major Components of the School Finance System

Minnesota's school finance system consists of more than 40 aid and levy programs. The biggest programs are:

- General Education Revenue
- Special Education Revenue
- Voter-approved Operating Revenue
- Voter-approved Revenue for Building Projects

Major Components of the School Finance System

Estimated Total Revenue for Schools FY 23: \$15.648 Billion



Source: HRD

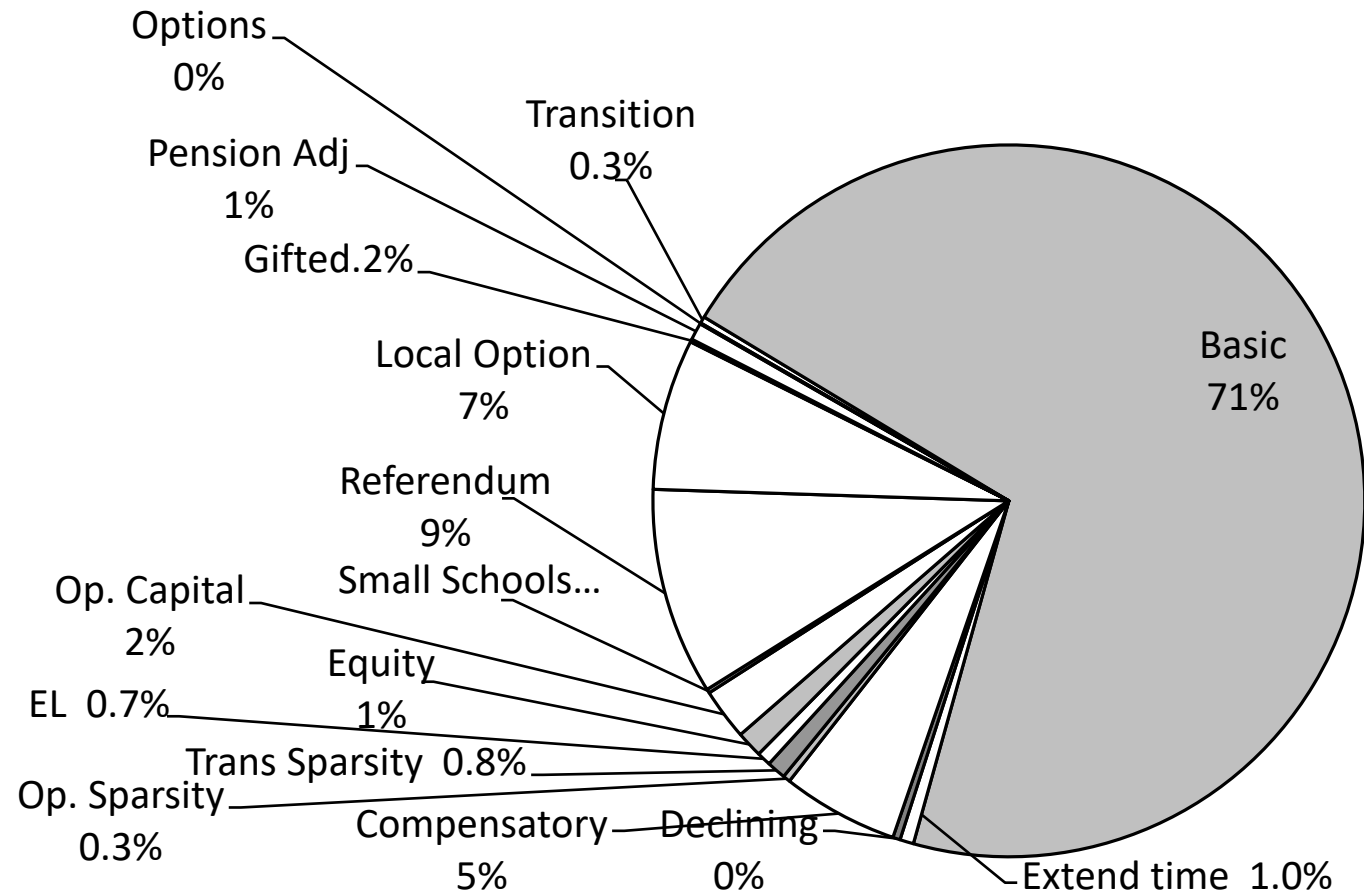
General Education Revenue

General Education revenue is the state's main vehicle for funding school district operating needs. General Education Revenue consists of:

- Basic Revenue (often called the formula allowance);
- Compensatory Revenue;
- English Learner Revenue;
- Local Optional Revenue (LOR);
- Sparsity Revenue; and
- A series of smaller revenue components

General Education Revenue by Component

\$9.090 Billion FY 2023



Special Education Revenue

Special Education revenue is funded primarily through state aid with a relatively modest amount of special education aid coming from the federal government.

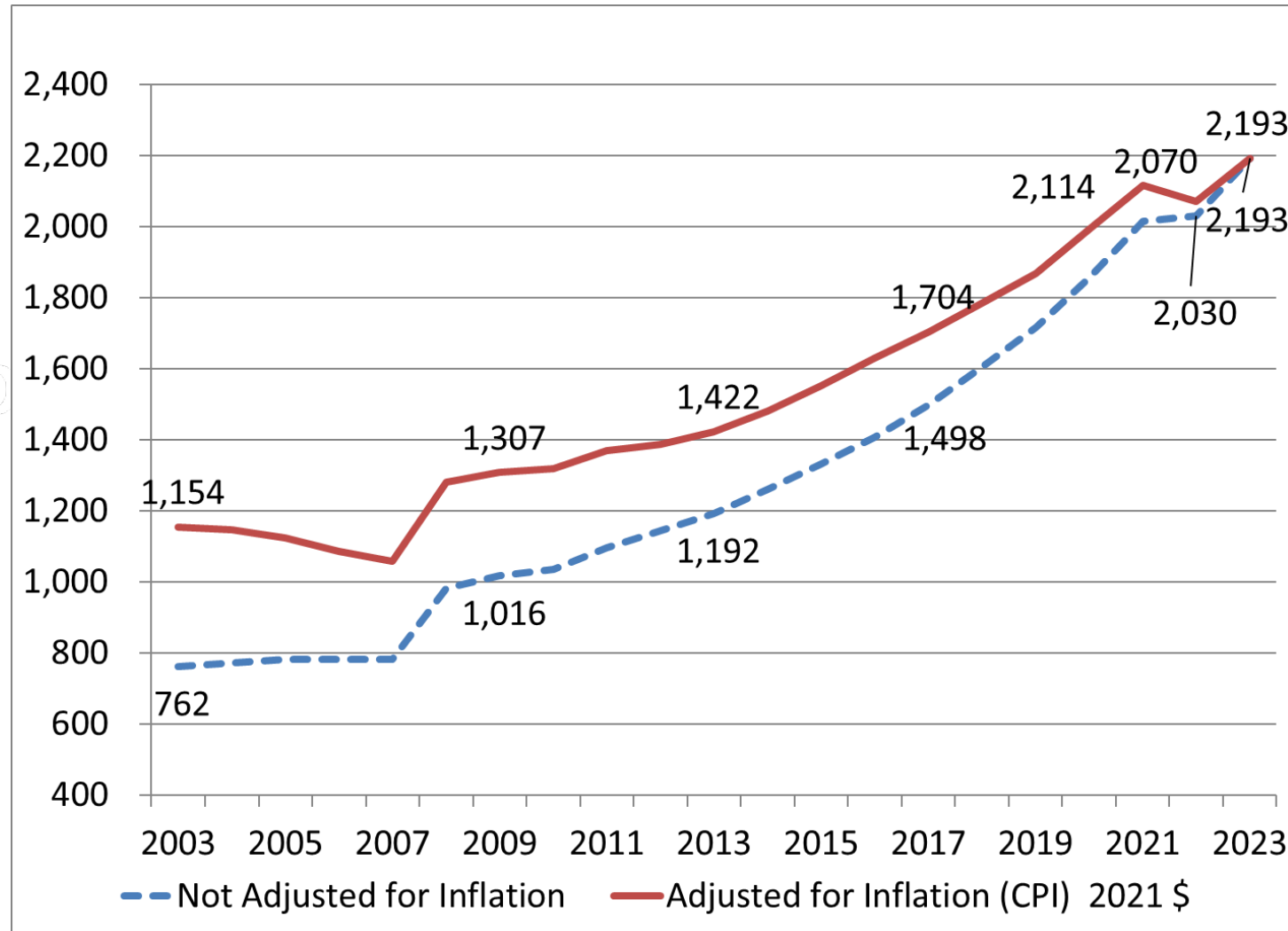
A significant share of special education costs is unfunded and must be paid for by the school district with its other general fund money.

Resident school districts are responsible for most unfunded special education costs of open-enrolled and charter school students. This is often referred to as the special education tuition bill-back.

Special Education Cost & Revenue for Fiscal Year 2023

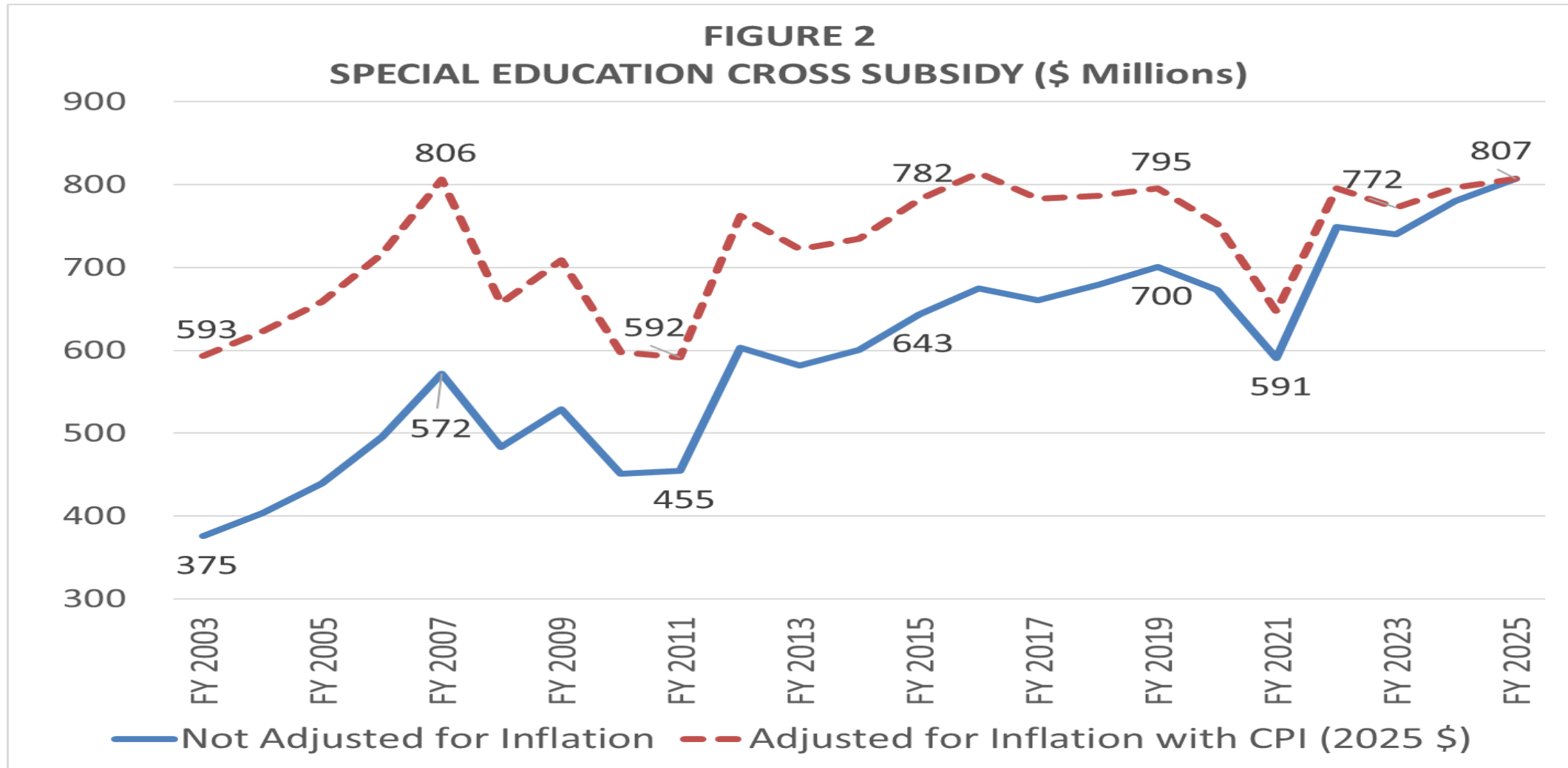
Special Education Estimated Total Costs Federal and State	\$2,845,239,000
State Special Education Aid Less ADSIS and Non-Special Education Transportation	\$1,743,832,000
Federal Aid	\$203,751,000
Third Party/Medical Assistance Revenue (health systems payments)	\$49,728,000
Total Categorical Revenue	\$1,997,311,000
Unadjusted Gap between Costs and Revenue (Unadjusted Cross Subsidy)	\$847,928,000
Adjusted Cross Subsidy (allocates some general education revenue)	\$726,918,000
Federal Shortfall vs 40% calculation	\$660,686.000
State Shortfall if Federal Government Paid 40% share	\$66,232,000

State Special Education Aid per Student (ADM) February 2022 Forecast



Special Education Cross Subsidy per ADM

February 2022 Forecast



Facilities Revenue

School districts and charter schools receive facilities revenue through a number of formulas.

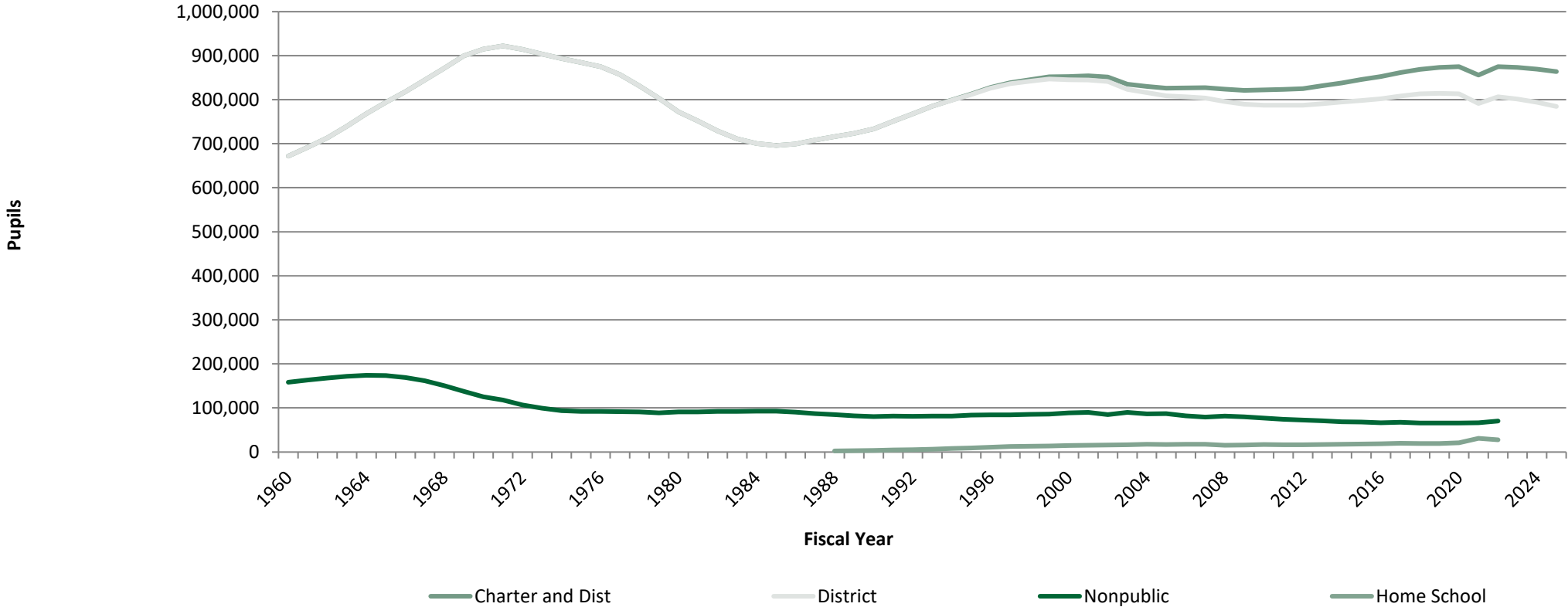
- For school districts, the single largest share of facilities revenue is from voter-approved bond sales. The bonds are used to pay for the construction work and are then repaid each year through local property taxes, some small amounts of equalization aid, and the agricultural school building bond credit.
- Charter schools fund most of their facility needs through the charter school lease aid program.
- School districts also receive Long Term Facilities Maintenance (LTFM) revenue and may levy a limited amount for certain lease purposes.

Enrollment

Minnesota's families may choose a variety of options for their students when it comes to K-12 education. Students may:

- Enroll in the resident school district;
- Open enroll in a different school district;
- Enroll in charter school;
- Enroll in traditional nonpublic school; or
- Choose to be home-schooled.

Enrollment in Minnesota's Schools: 1960 to 2025

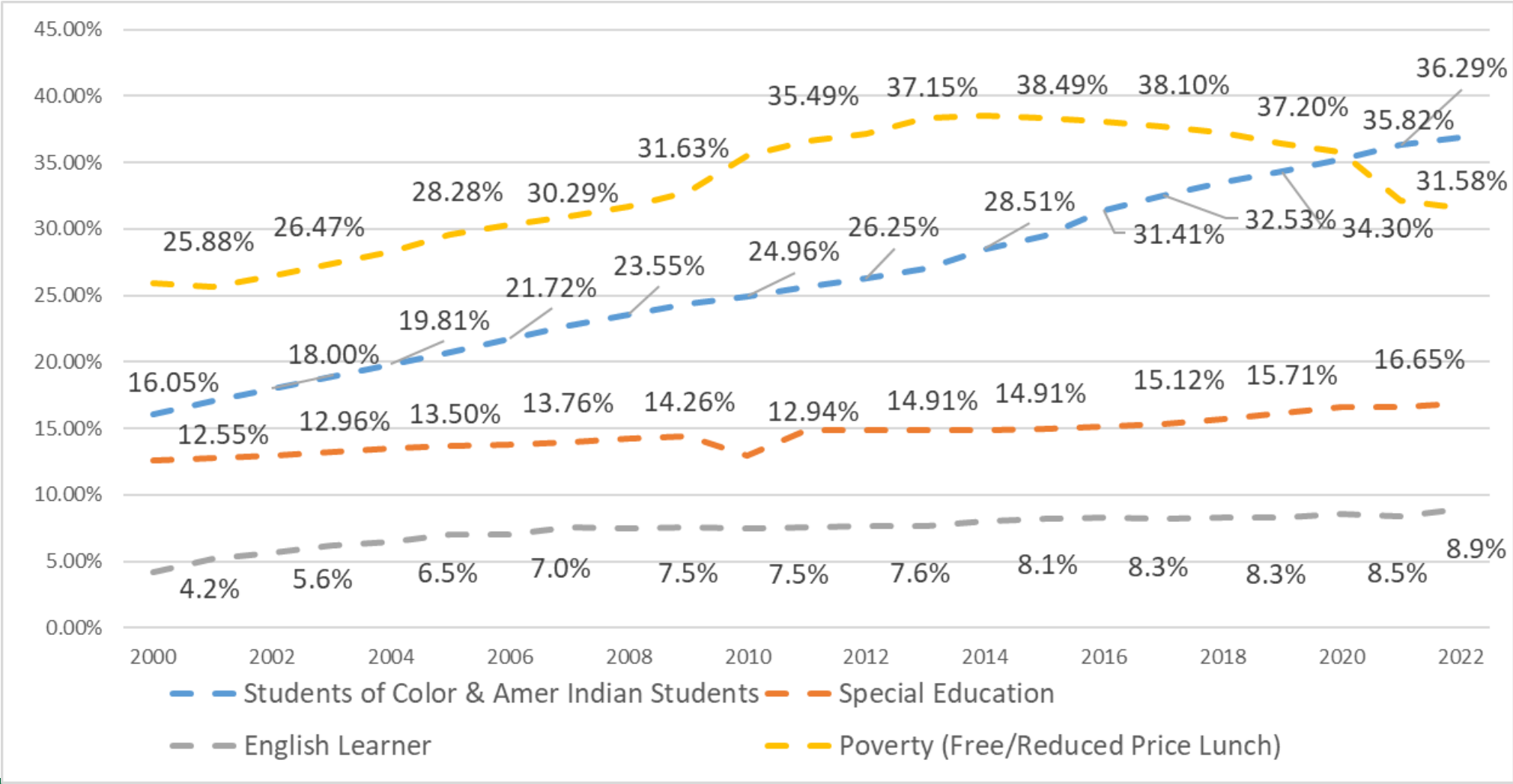


Demographic Changes in Minnesota's Schools

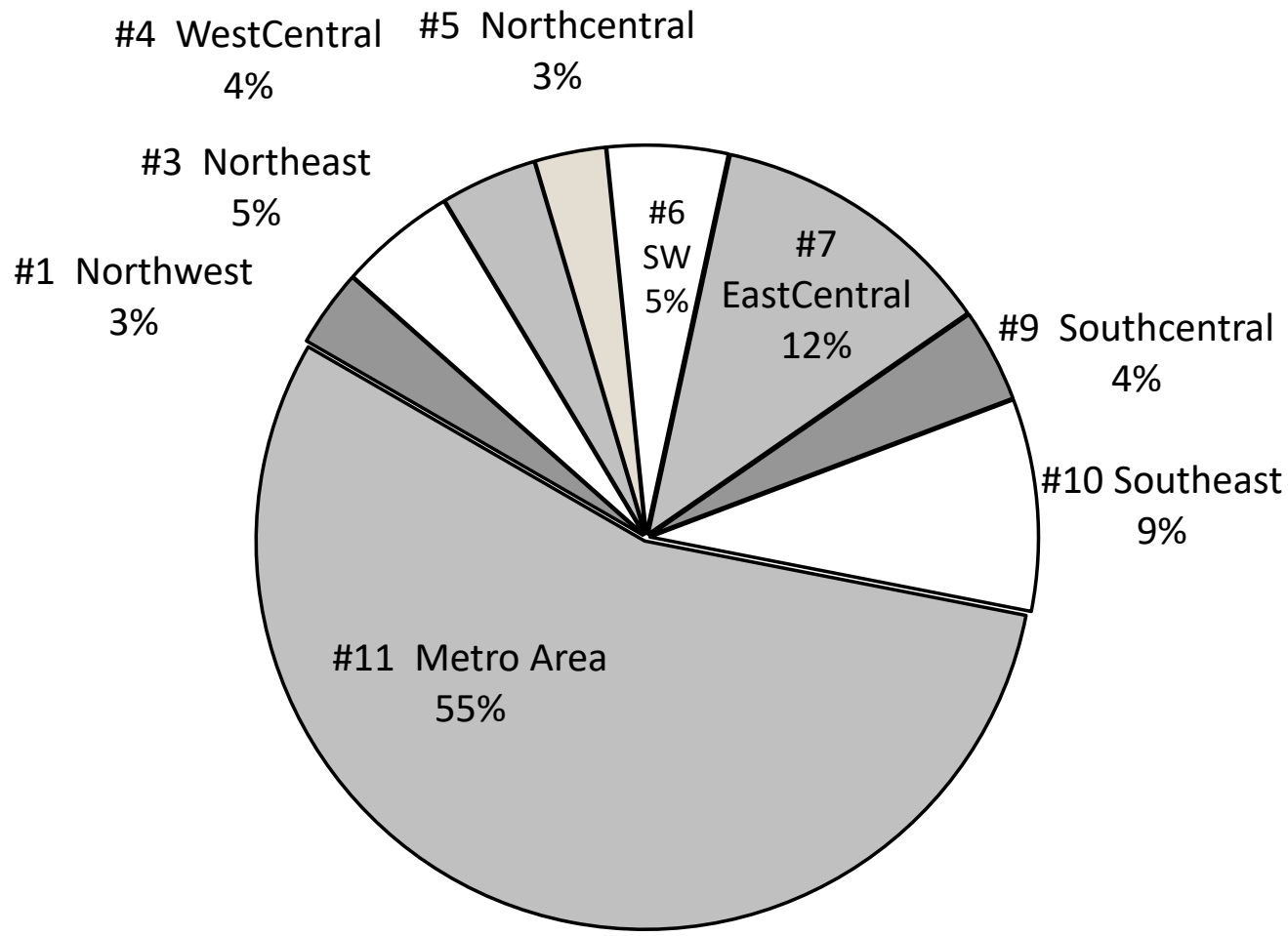
Overall Enrollment in Minnesota's schools is projected to decline for the foreseeable future and a greater share of students is likely to live in the Twin Cities metropolitan area. Student demographics continue to change for:

- Low-income students;
- English learner students;
- Special education students; and
- Students of color.

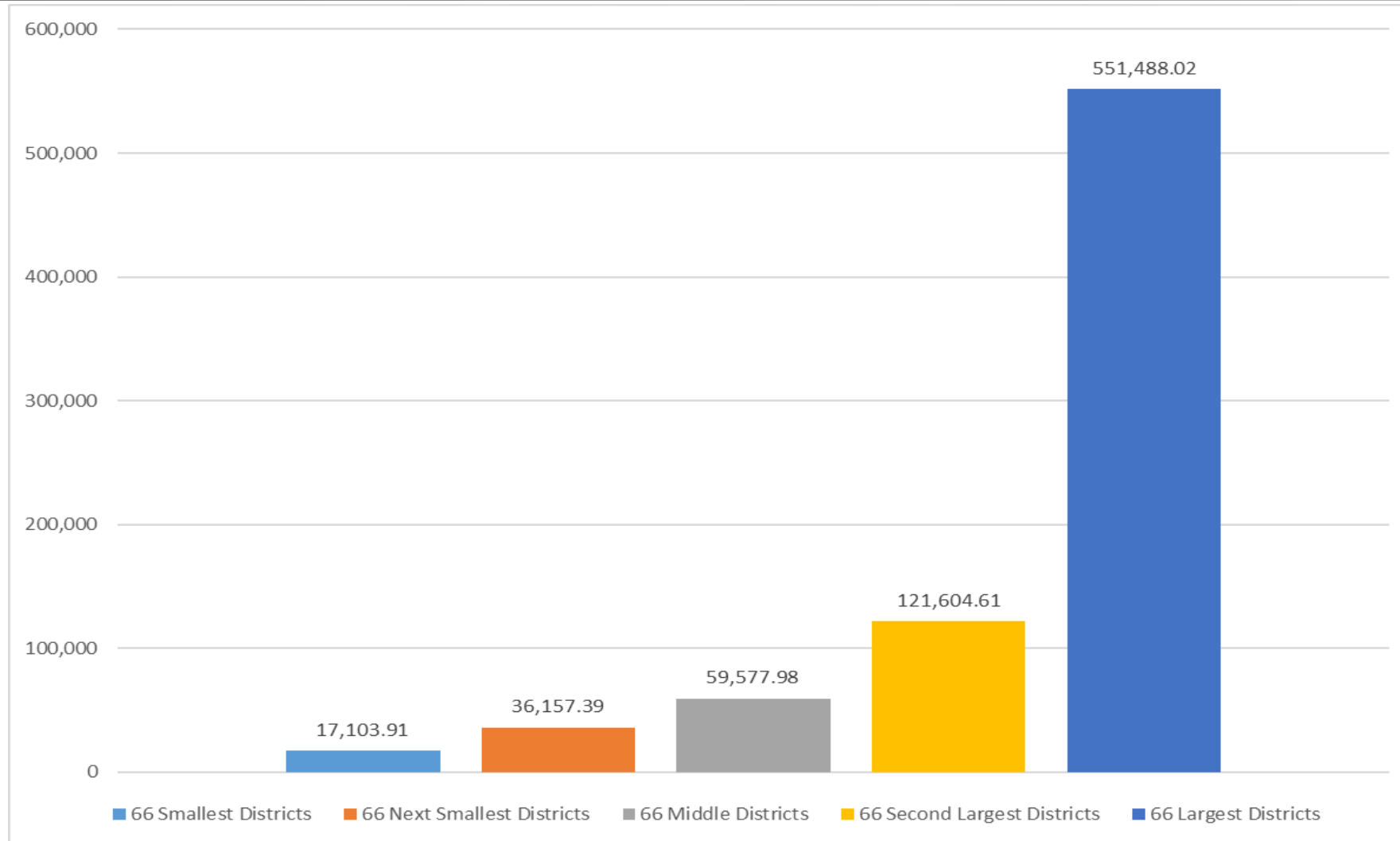
Special Populations as Percent of Public School Enrollment 2000 to 2022



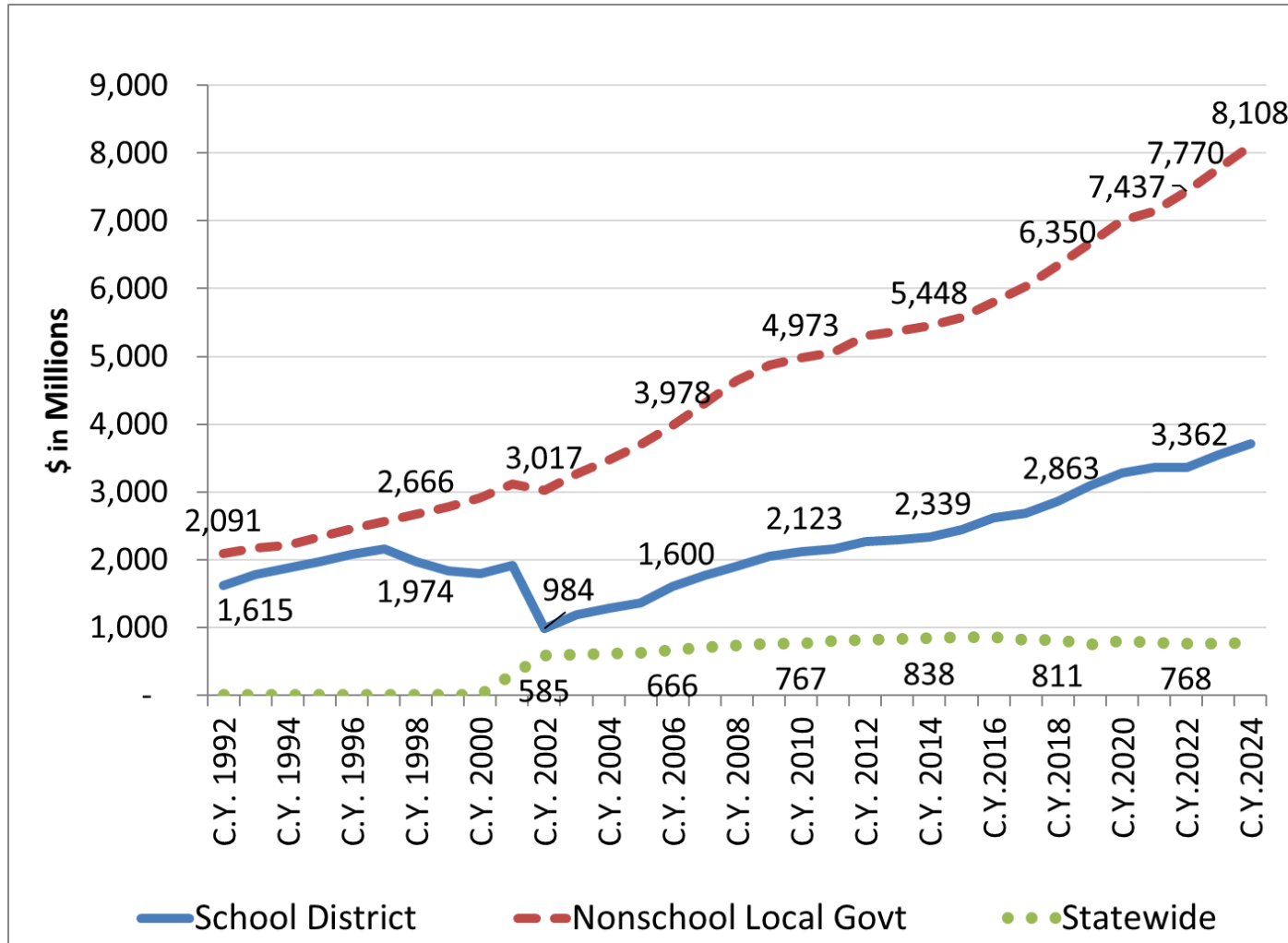
School Enrollment (District and Charter) by Service Cooperative Region FY 2022



Percent of Students Enrolled by School District Size Quintile FY 2022



Property Tax Levies: School vs Non School Payable 1992 – 2024; COG 33-year Spreadsheet

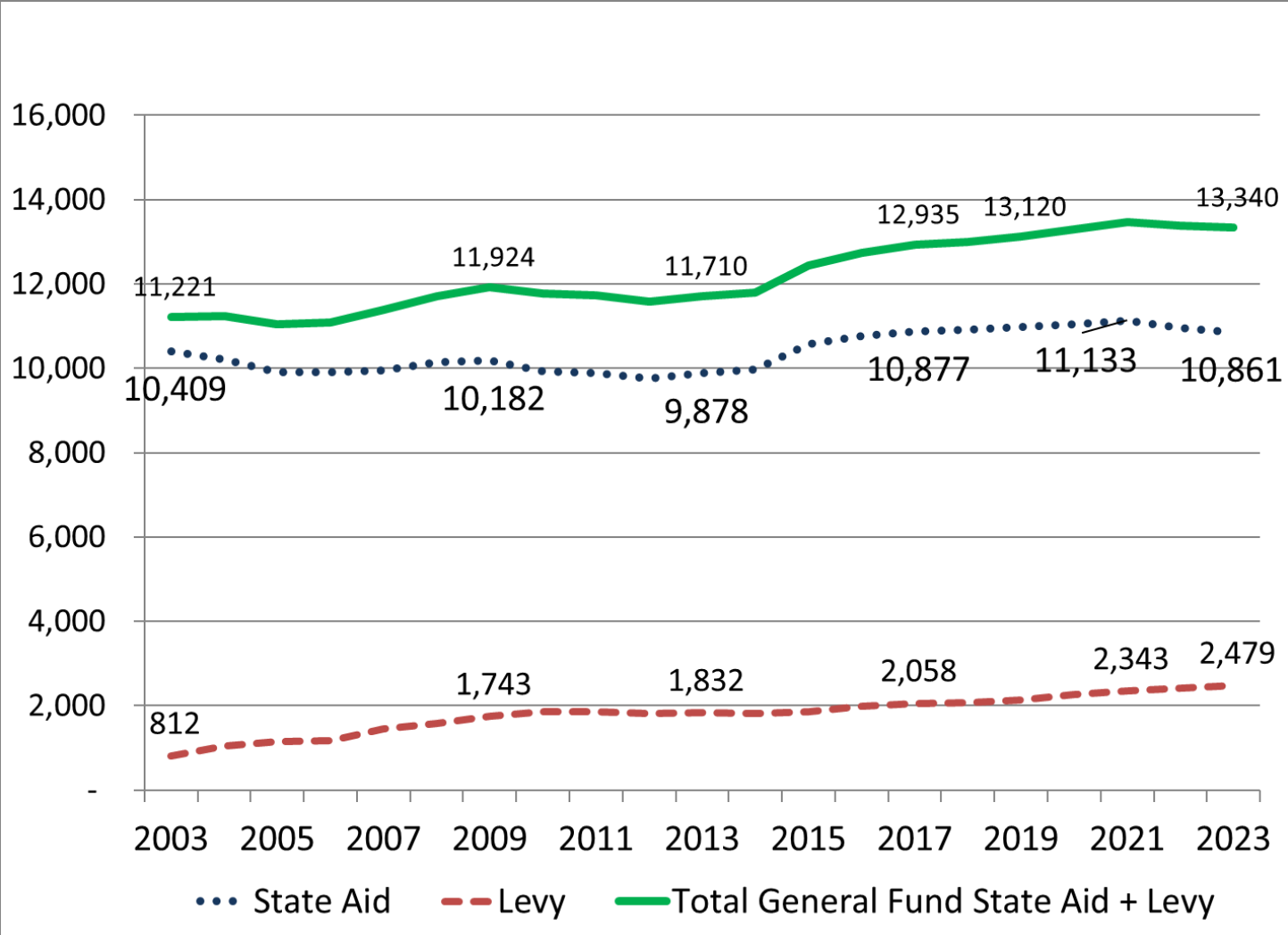


Trends in School Characteristics

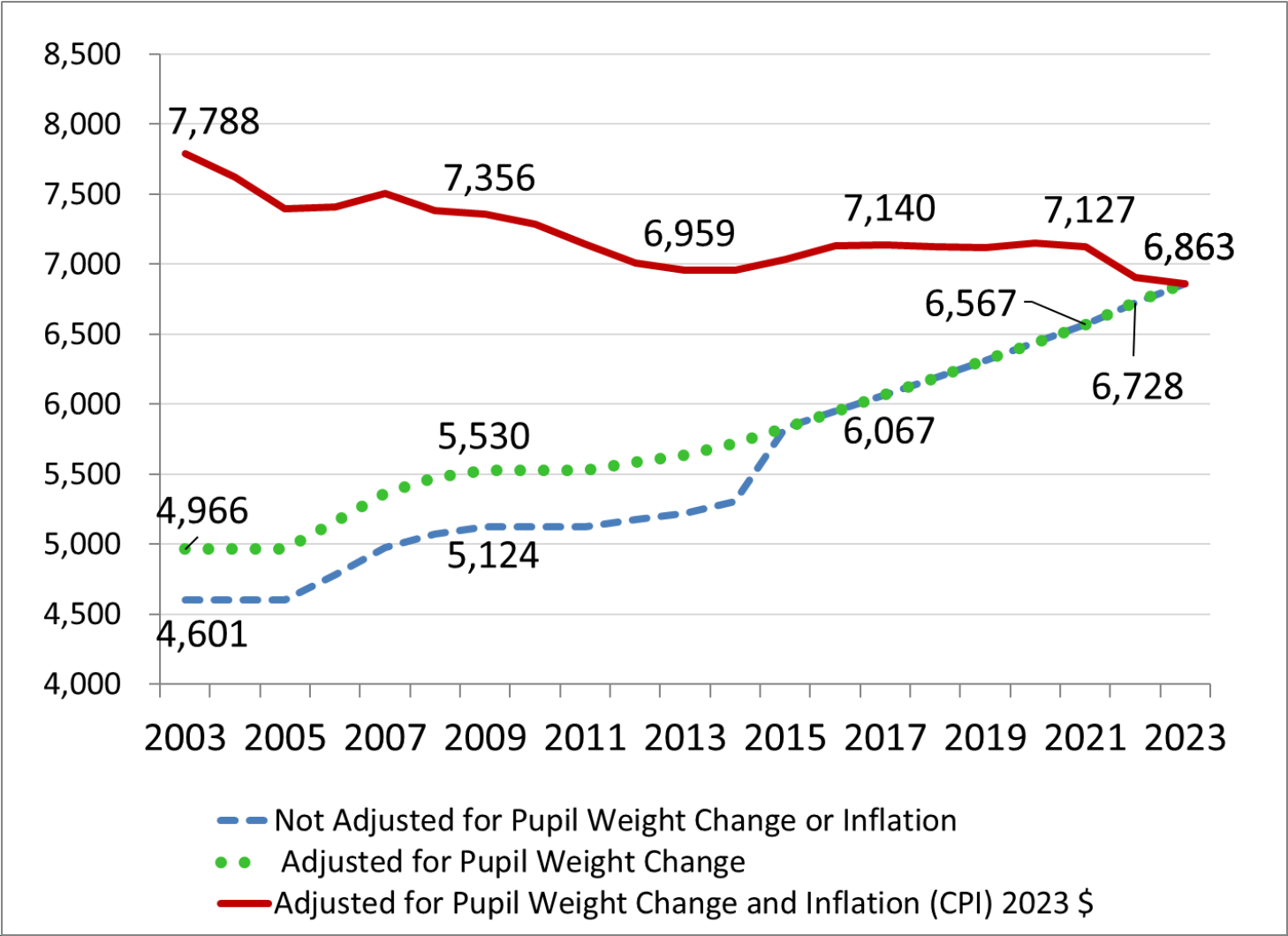
The following charts show trends in school district characteristics including:

- Revenue Trends
- Property Tax Trends
- Fund Balance Trends
- Teacher/Student Ratios

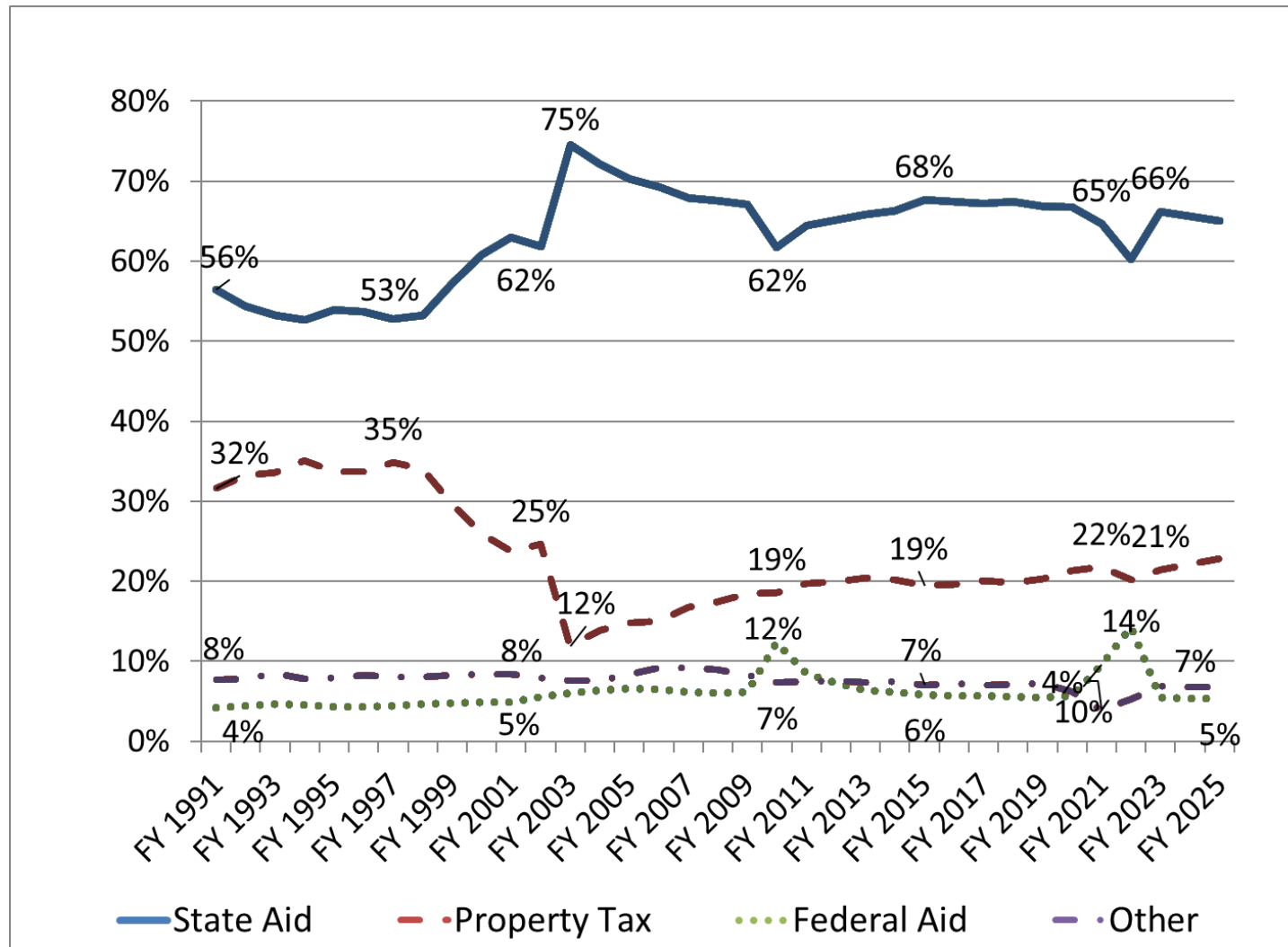
General Fund Revenue per Student by Source February 2022 Forecast



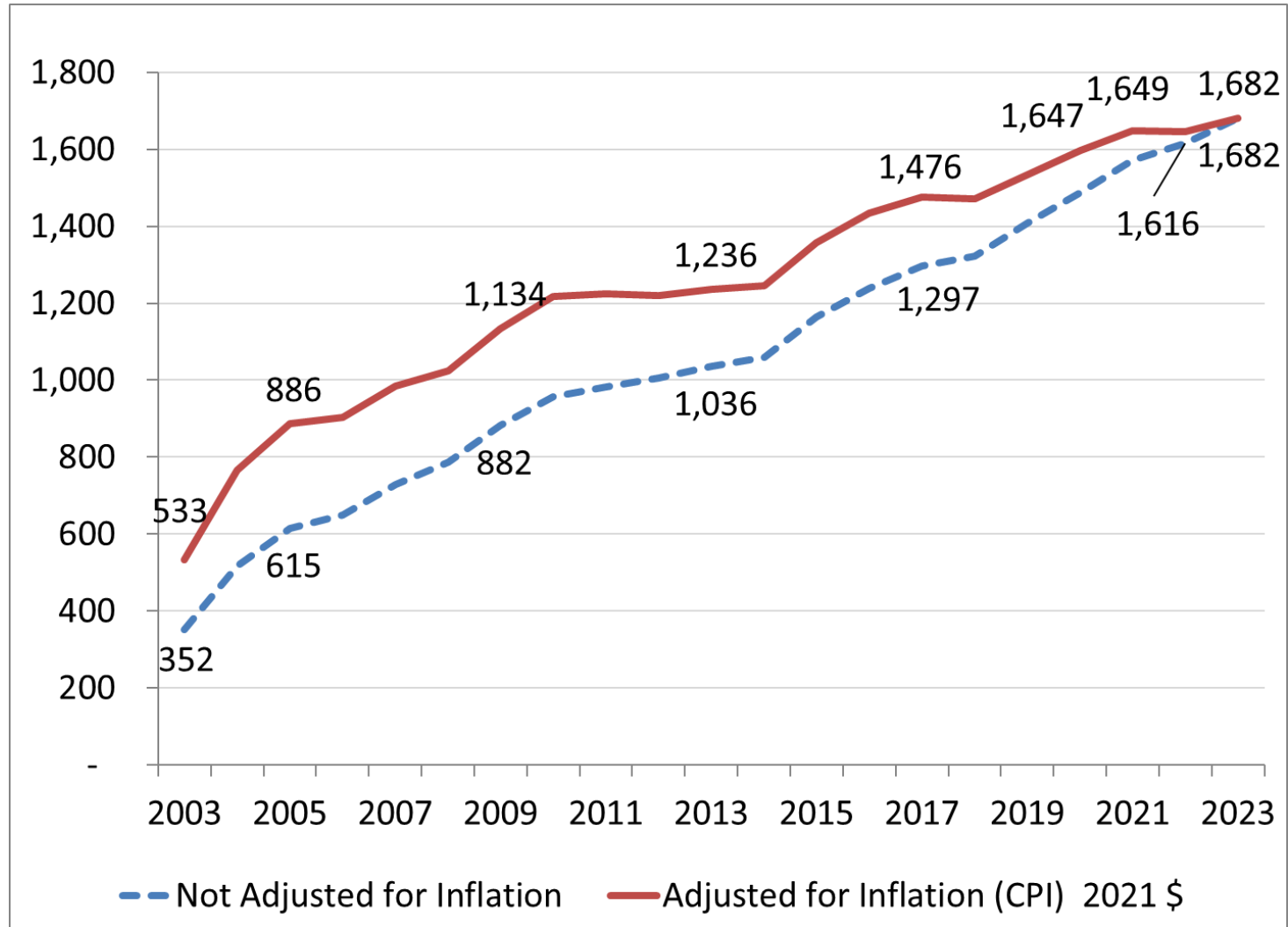
General Ed Formula Adjusted for Pupil Weight Change and Inflation (CPI) February 2022 Forecast



PK-12 Education Revenue by Source (All Funds) February 2022 Forecast

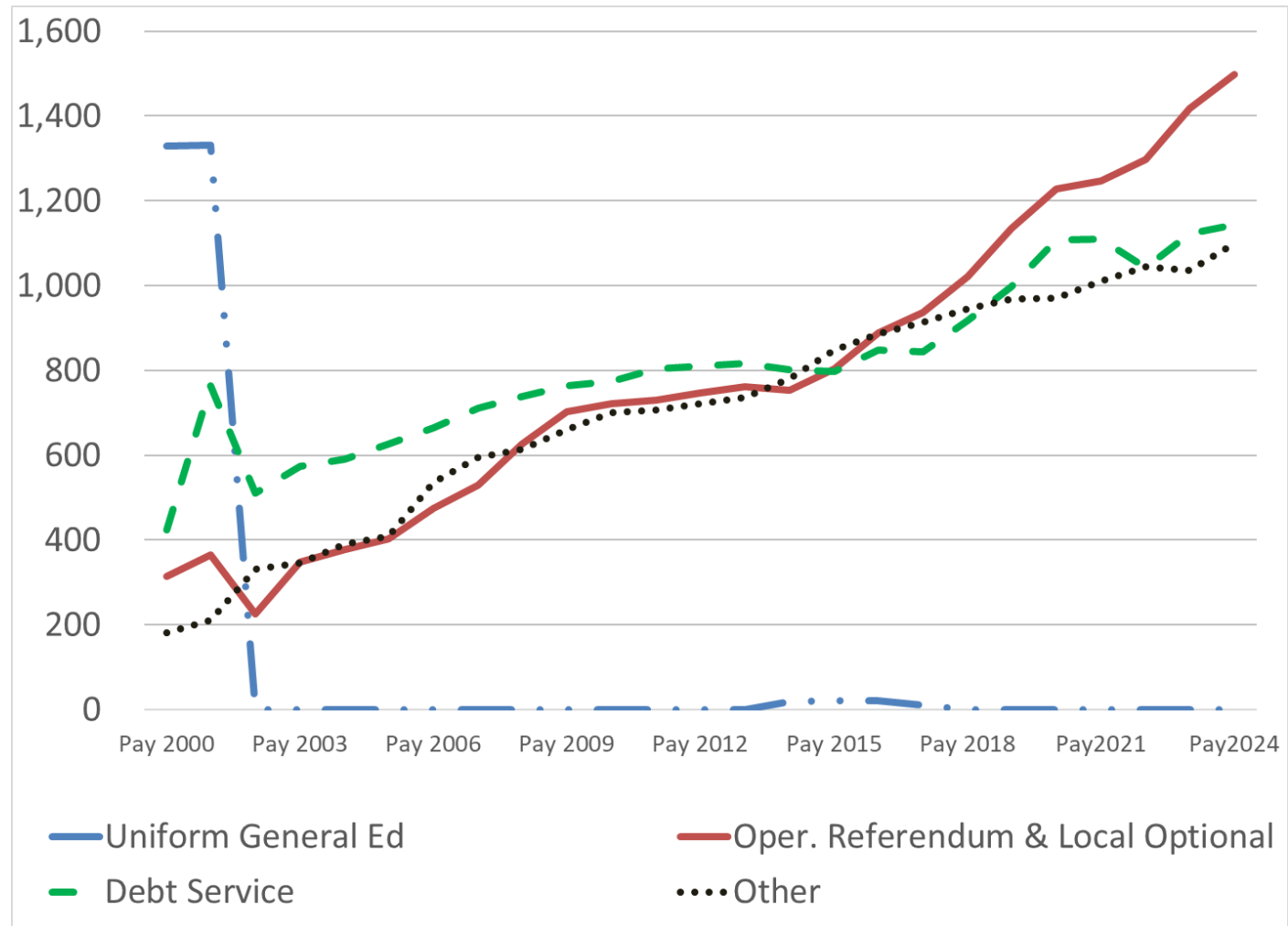


Referendum and Local Optional Revenue per Student February 2022 Forecast

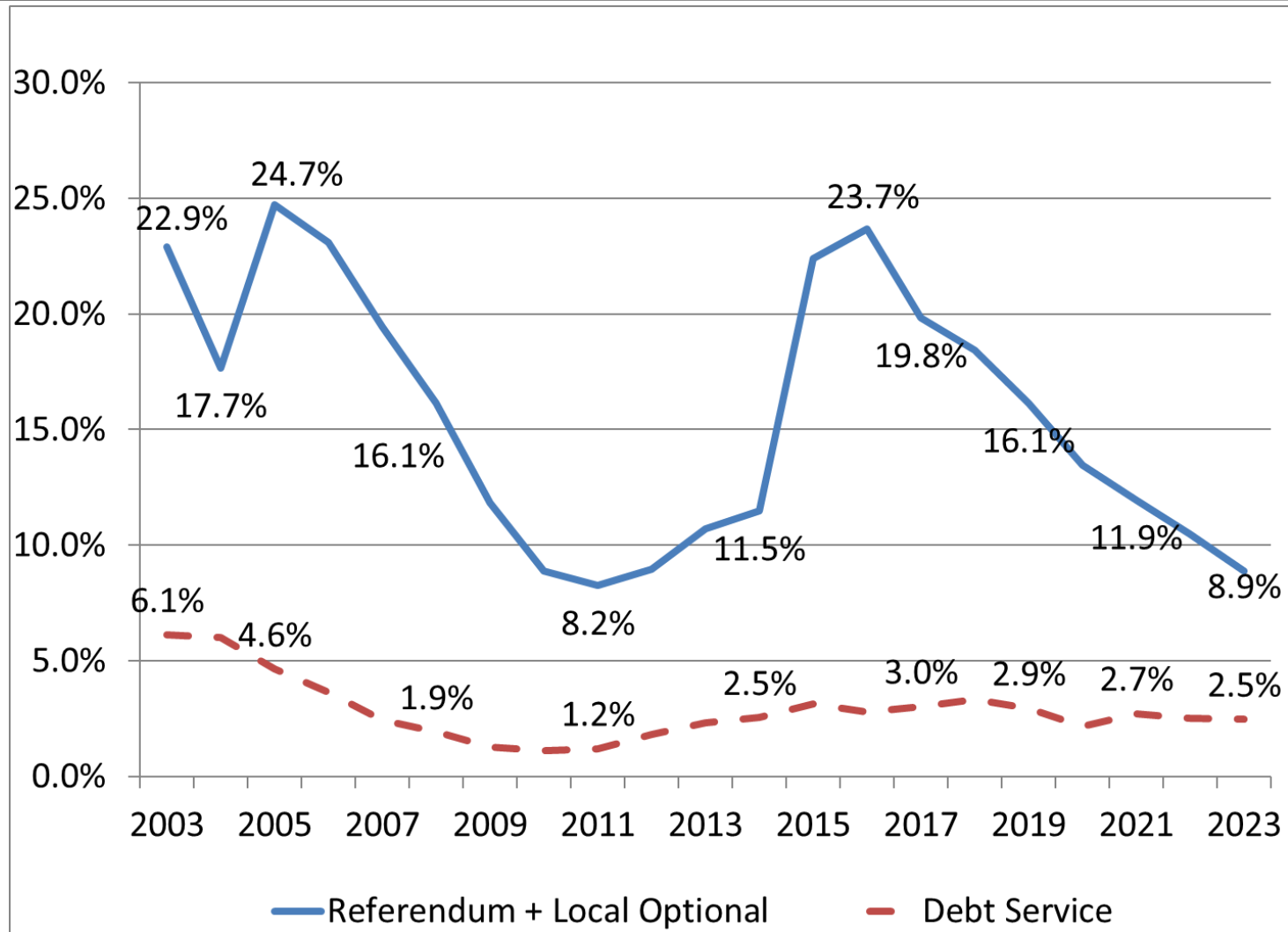


School District Certified Levy by Type

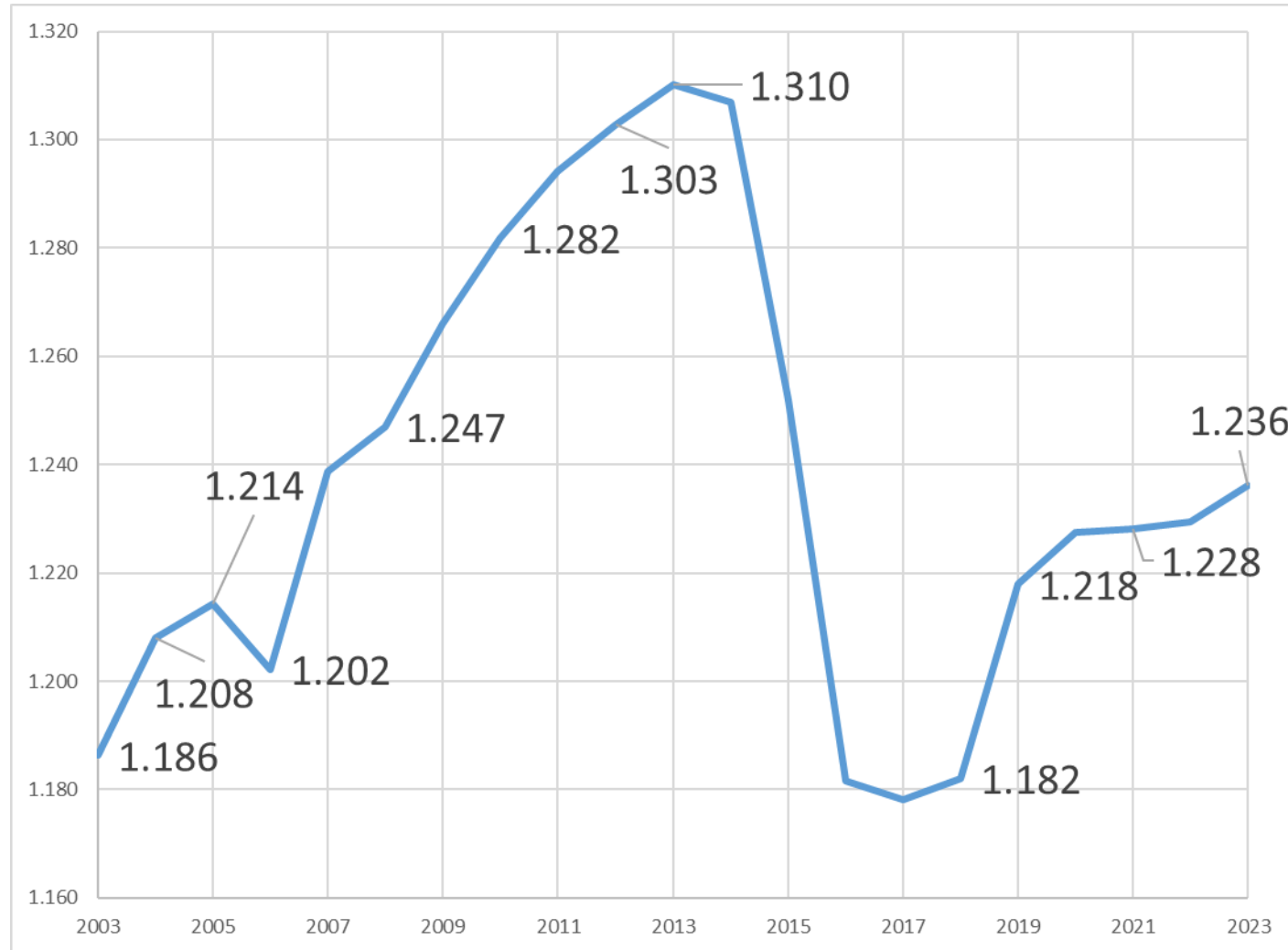
Current \$ in Millions; February 2022 Forecast



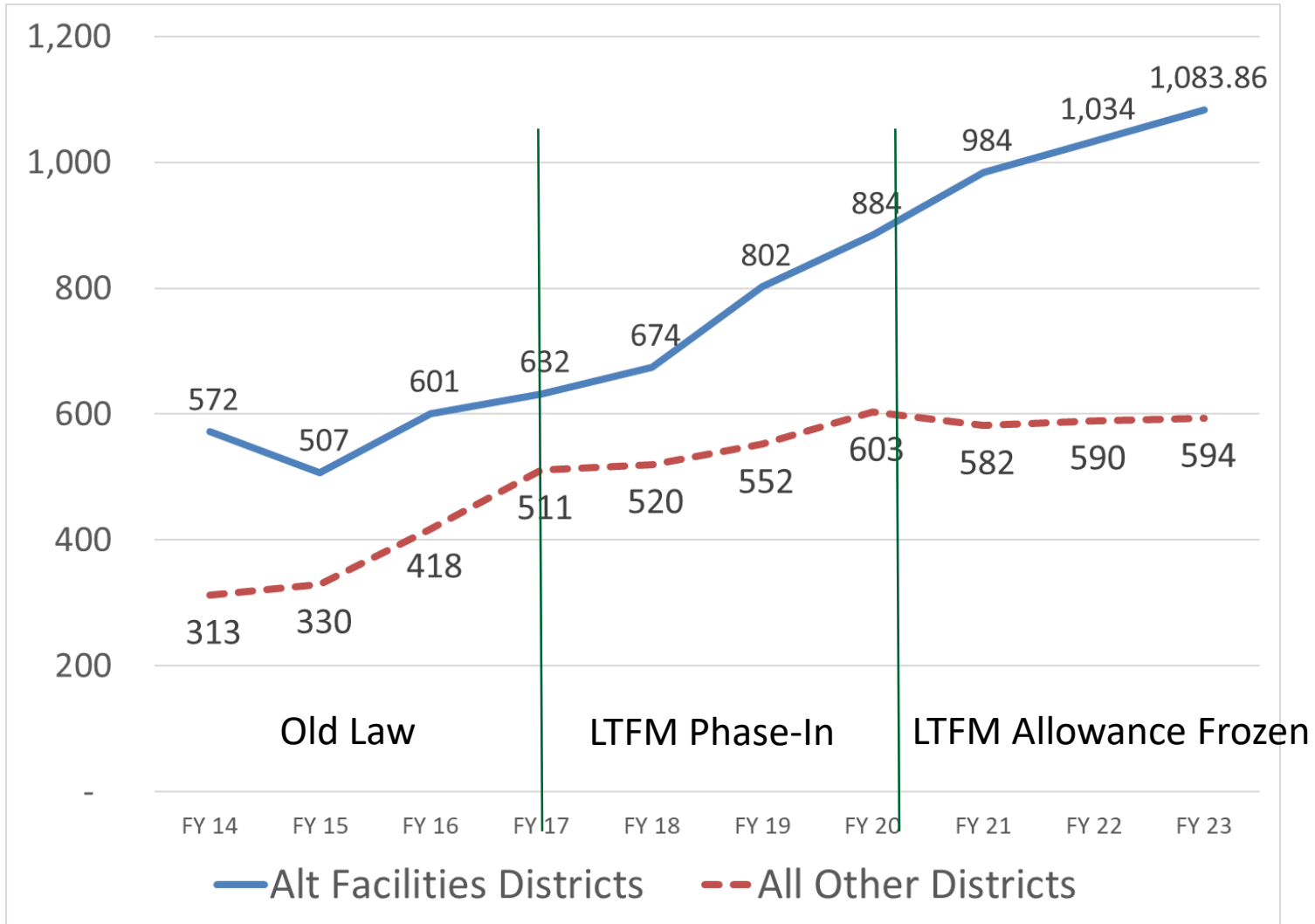
State Share of Referendum + Local Optional and Debt Revenue February 2022 Forecast



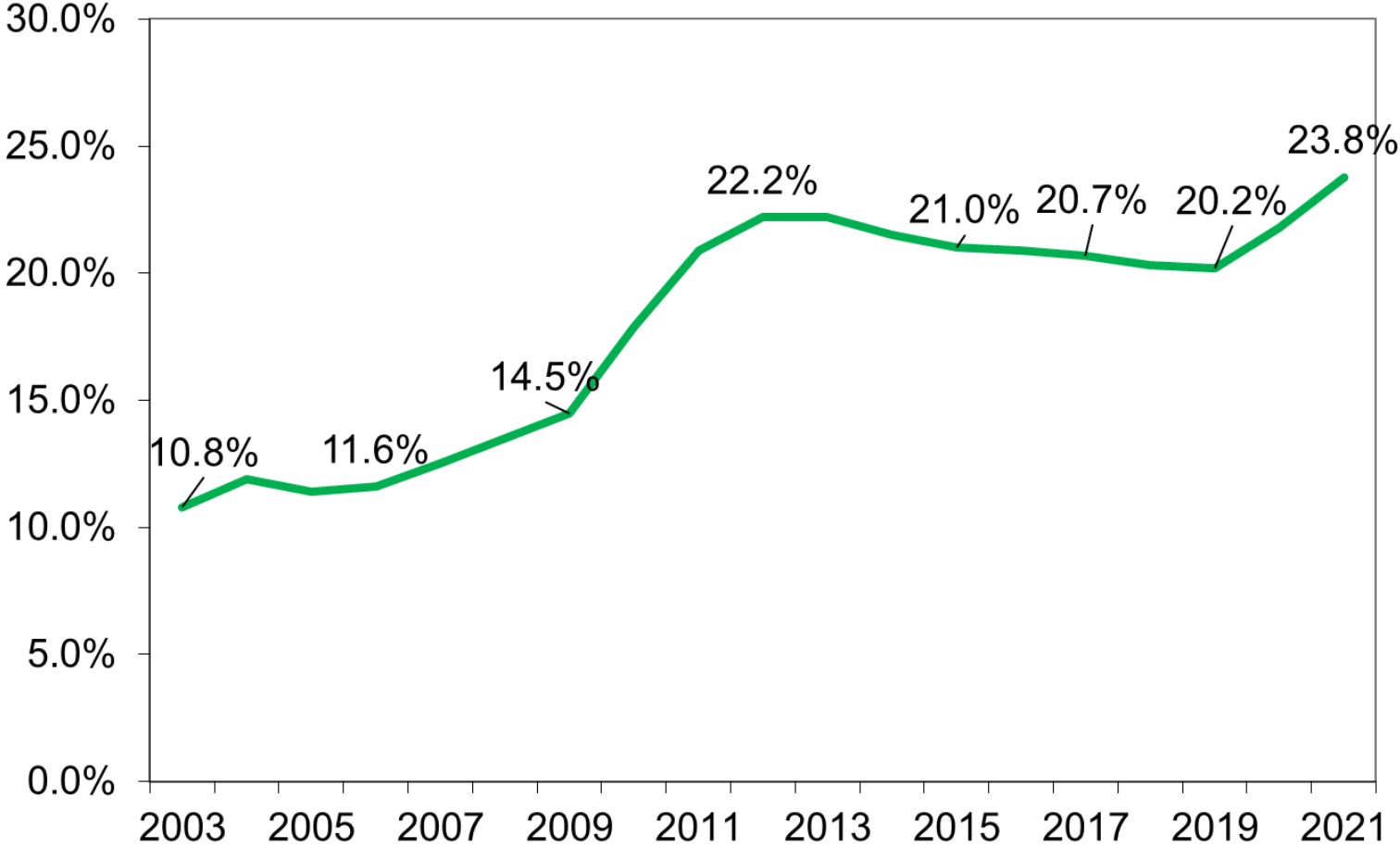
Disparity in Unrestricted General Revenue per Student 95th to 5th Percentile Ratio, November 2021 Forecast



Long Term Facilities Maintenance Revenue/ADM Alternative Facilities Districts versus All Other Districts February 2022 Forecast

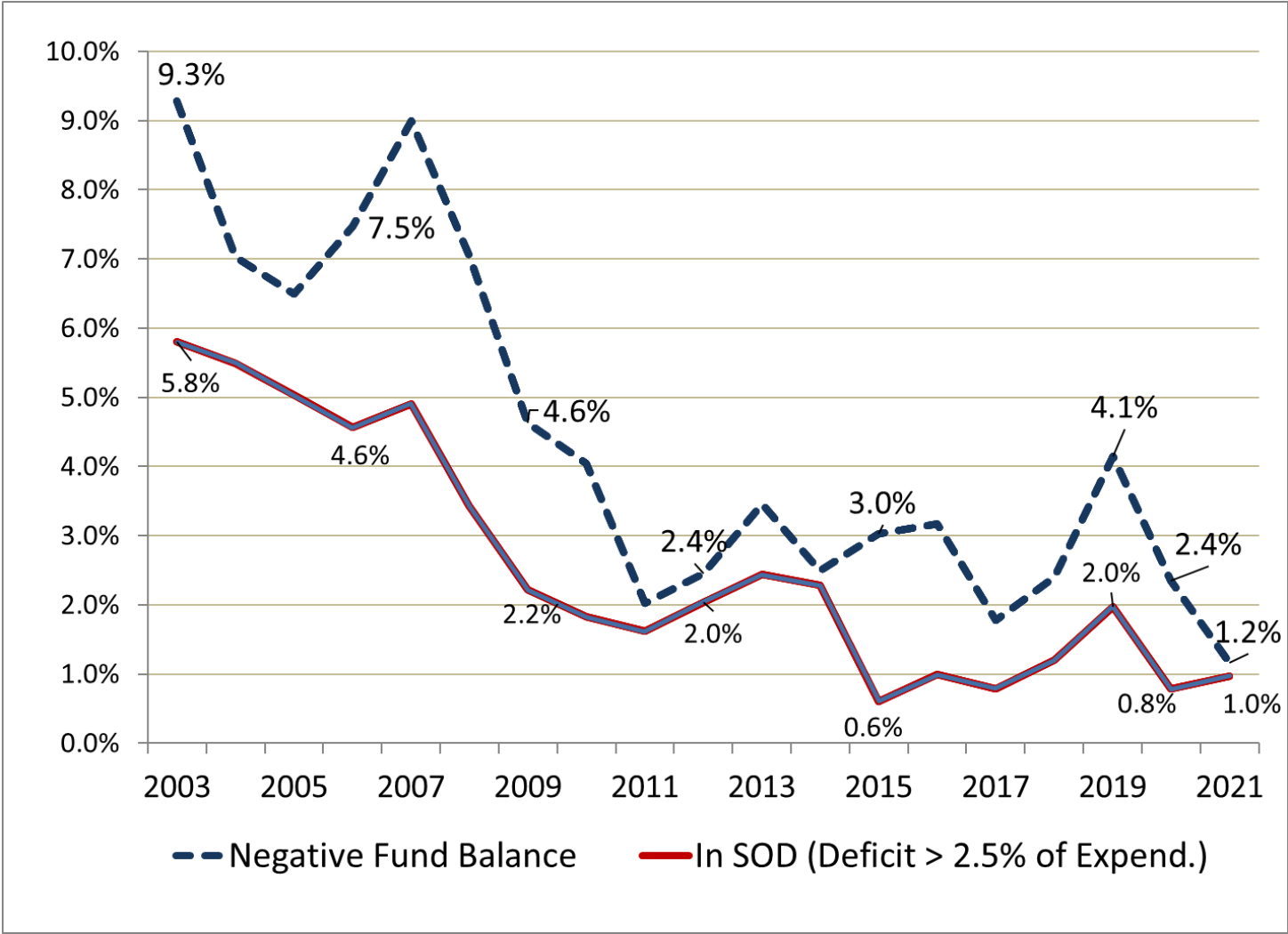


Unreserved General Fund Balance of School Districts and Charter Schools as Percent of Expenditures



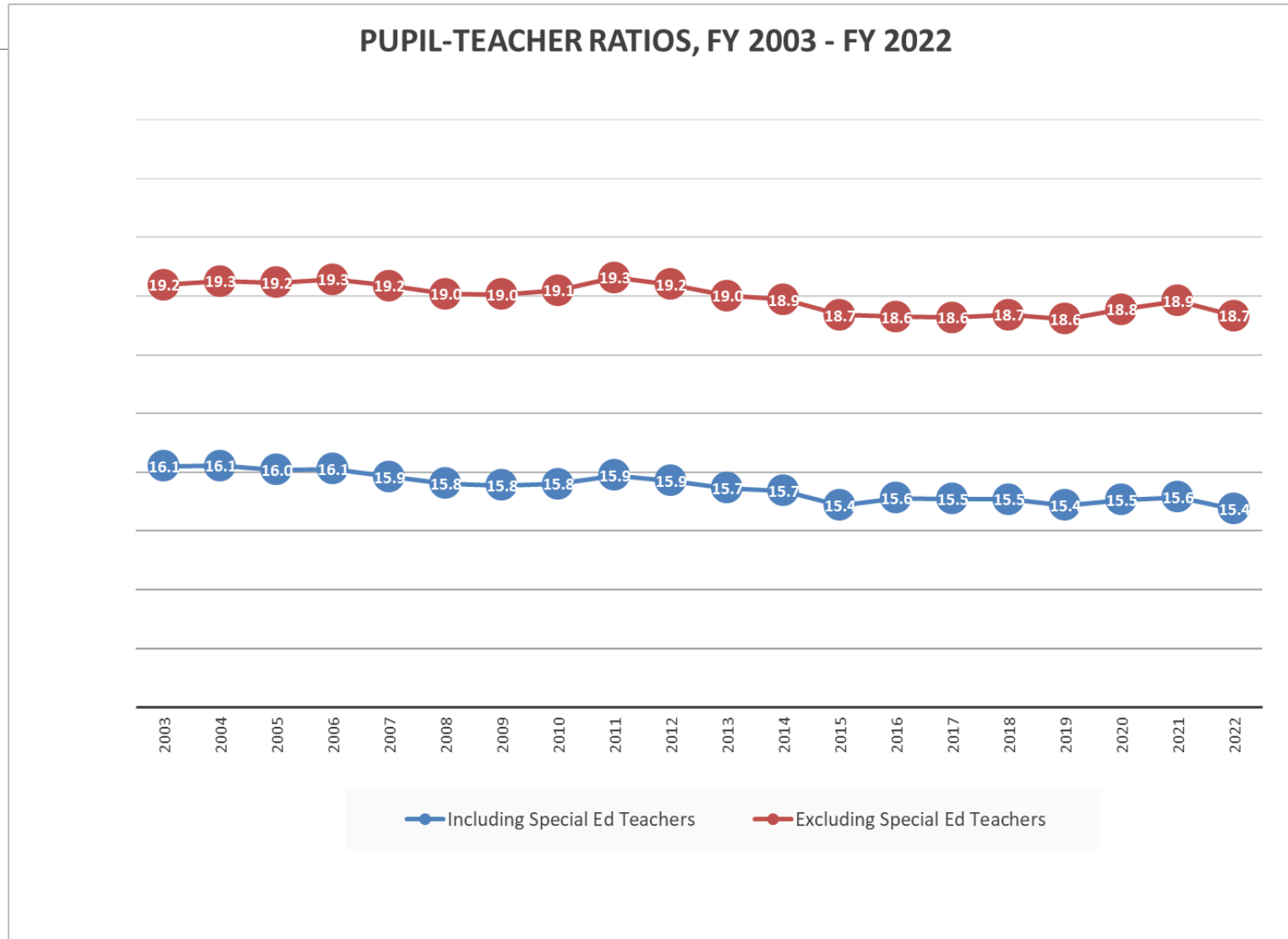
— Unreserved General Fund Bal as % of Expenditures

Percent Of School Districts And Charter Schools In SOD Or With Negative General Fund Balance



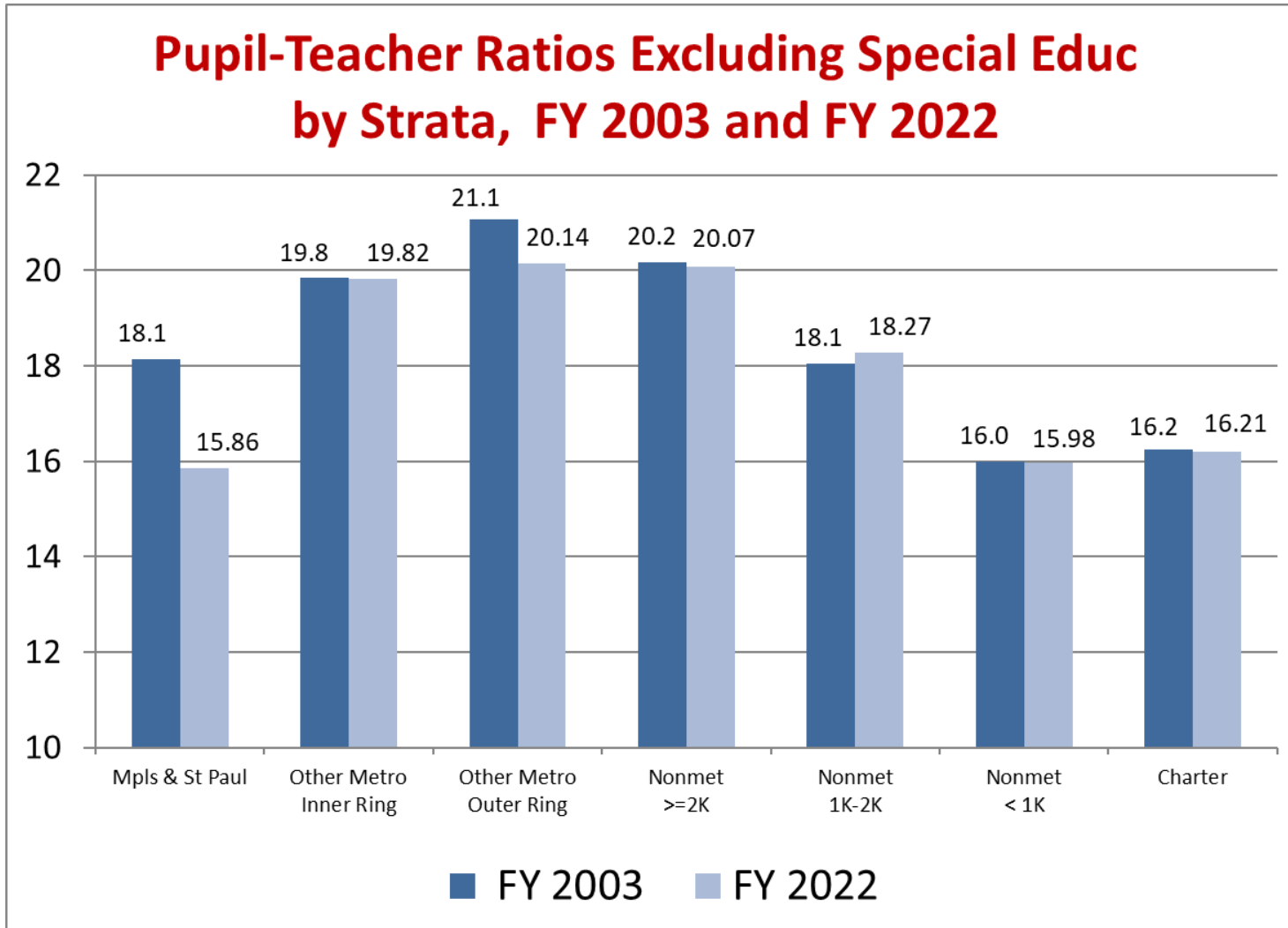
Pupil-Teacher Ratios

FY 2003 - 2022



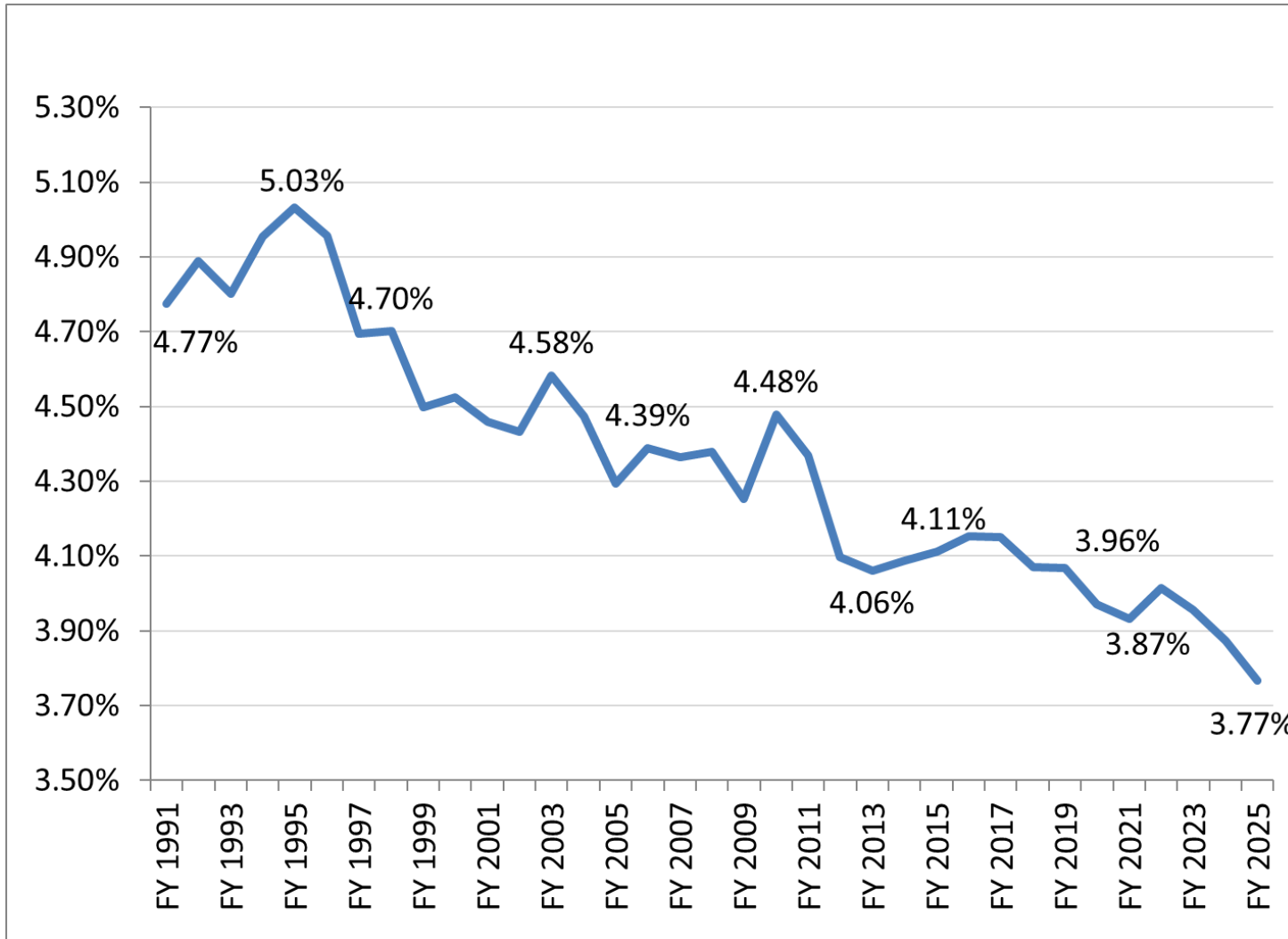
Pupil-Teacher Ratios Excluding Special Ed Teachers

By Strata, FY 2003 and FY 2022



State-Local E-12 Education Revenue As Percent of Personal Income

Source: Price of Government



Trends in Minnesota's State Budget

The 2003 Legislature will be adopting a budget for fiscal years 2024 and 2025. That budget will be based on the Forecast estimates of revenue and expenditures. The Minnesota office of Management and Budget has the full package of Forecast documents posted to their website.

The following table shows the relative Revenue and Expenses for the next several years.

State General Fund Budget November 2022 Forecast (\$ in millions)

	FY 2022-23		FY 2024-25	
(\$ in millions)	Nov. 2022 Forecast	Forecast Change	Nov. 2022 Forecast	Forecast Change
Beginning Balance	\$7,026	\$ -	\$15,175	\$4,794
Revenues	59,928	3,273	60,281	410
Spending	51,799	(1,521)	53,953	(600)
Budget Reserve	2,852	196	2,852	196
Cash Flow Account	350	-	350	-
Stadium Reserve	368	41	684	103
Budgetary Balance	\$11,605	\$4,556	\$17,616	\$5,504

School Finance Info on the Web

MN House of Representatives website

School finance overviews on:

<http://www.house.leg.state.mn.us/>

- [Minnesota School Finance: A Guide for Legislators](#)
 - (Long version – 147 pages)
- [Financing Education in Minnesota, 2022-23](#)

(Short version – 77 pages)
- Forecast Documents: <https://mn.gov/mmb/forecast/>

School Finance Info on the Web

MDE Web Site

Data Center / Data Reports and Analytics:

- Minnesota Funding Reports (MFR)
 - Aid entitlement reports
 - Levy limitation reports
 - IDEAS aid payment reports
- School Finance Spreadsheets
 - What-If (general education revenue calculations)
 - Financial Profiles

School Support / School Finance

- UFARS and MARSS Manuals
- School Business Bulletins
- Memos / guidance
- One-Time Reports (e.g., Governor's budget runs)