

# Financing Education In Minnesota

## Phase II Presentation—New School Board Members

December 2020

This presentation is prepared jointly by the Minnesota Department of Education and the Minnesota House of Representative Research Department.

Many thanks to MDE for their assistance. Any errors in this update are Tim's alone.

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- 1) Education Finance
  - 1) Principles
  - 2) Funding Basics
- 2) Context for School Finance Systems
- 3) Context for School Funding in Minnesota
- 4) Major Components of Minnesota's School Finance System
- 5) Education Funding Trends Over Time
- 6) State Budget Outlook

# 1A) Education Funding Principles: Goals of State School Finance System

## Adequacy and Equity for Students:

- Ensure that all local education agencies have the resources needed to provide an adequate basic education for all students, regardless of geographic location:
  - Basic formula covers the cost of providing an adequate basic education for students without special needs.
  - Additional funding for excess costs:
    - high-need students
    - unique district characteristics

# Education Funding Principles: Goals of State School Finance System

## 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.

# Education Funding Principles: Goals of State School Finance 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.

# How Does Funding Work in Minnesota?

Funds are Mainly Based on the Count of Students Served:

- State statutes (state law) set the funding levels—state law sets of mix of state aid and local levies
- Funding is based on the number of students actually attending the school, the greater the student count, the larger the funding
- Each school district and charter school's funding is different depending on student characteristics
- State and federal special education formulas, while significant, underfund the total cost of special education services
- Resident school districts are responsible for most unfunded special education costs of open-enrolled and charter school students
- State statutes allow revenues to be raised through voter approval

## 2) Context for School Finance

- Legal
  - MN Constitution
  - State & federal laws
  - Agency guidance
- Terminology
  - Pupil accounting
  - Property tax base
- Overall public finance system
  - Property Taxes
  - State Budget
- Variations in school district characteristics
- School funding, staffing & financial condition trends

# Legal Context: 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.



# Legal Context: Minnesota Supreme Court

- Skeen v. State of Minnesota, August 20, 1993
- ...education is a fundamental right in Minnesota.
- ...our 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...

# Legal Context: Laws and Rules

## Minnesota Statutes:

- [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, uncoded (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

# Legal Context: Laws and Rules

## Federal Regulations:

- Specific program regulations (e.g., IDEA, Title I)
- OMB Omni Circular:
  - Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), published December 2013, and effective for Federal awards made on or after December 26, 2014.

## Fiscal Year:

- State      July 1 - June 30 (Currently State FY 2021)
- Federal    October 1 – September 30 (Currently Federal FY 2021)

## Pupil Accounting:

- Average Daily Membership (ADM) =
  - the average number of pupils enrolled in the school district throughout the school year.
  - Regular ADM limited to 1.0 for each student, (except voluntary pre-K, where ADM is limited to 0.6).
  - Extended Time ADM (Students served more than full-time in a learning year program) – limited to 0.2 ADM per student; used only for extended time revenue.

# Context: Terminology

## Pupil Weights:

Grade Level	Weight
VPK or SRP(Approved schools)	1.0
Pre-K Disabled and K Disabled	1.0
Regular K	1.0 Full time/ .55 Part Time
Grades 1-6	1.0
Grades 7-12	1.2

Pupil Units = ADM x Pupil Weights

(Sometimes called Weighted ADM or WADM)

## Pupil Accounting (Continued):

### Two Types of Pupil Units (PU):

- Resident Pupil Units (RPU) =  
Resident ADM X Pupil Weight
  - (Resident ADM includes all MN public school students residing in the district)
- Adjusted Pupil Units (APU) =  
Resident PU  
+ PU for nonresidents attending the district under alternative attendance programs (e.g., open enrollment)  
- PU for residents attending another district or charter school under alternative attendance programs

## 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 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:

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

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

## 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

Two major ways state helps reduce tax burden on property owners

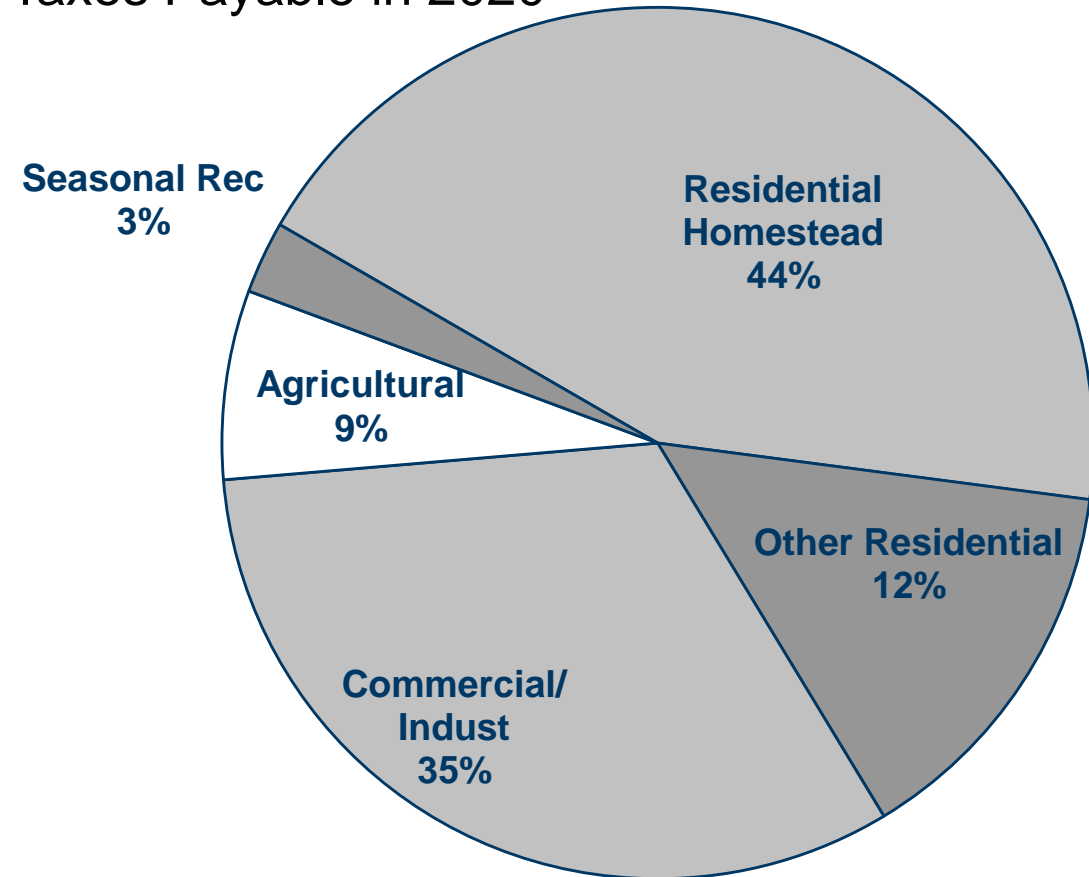
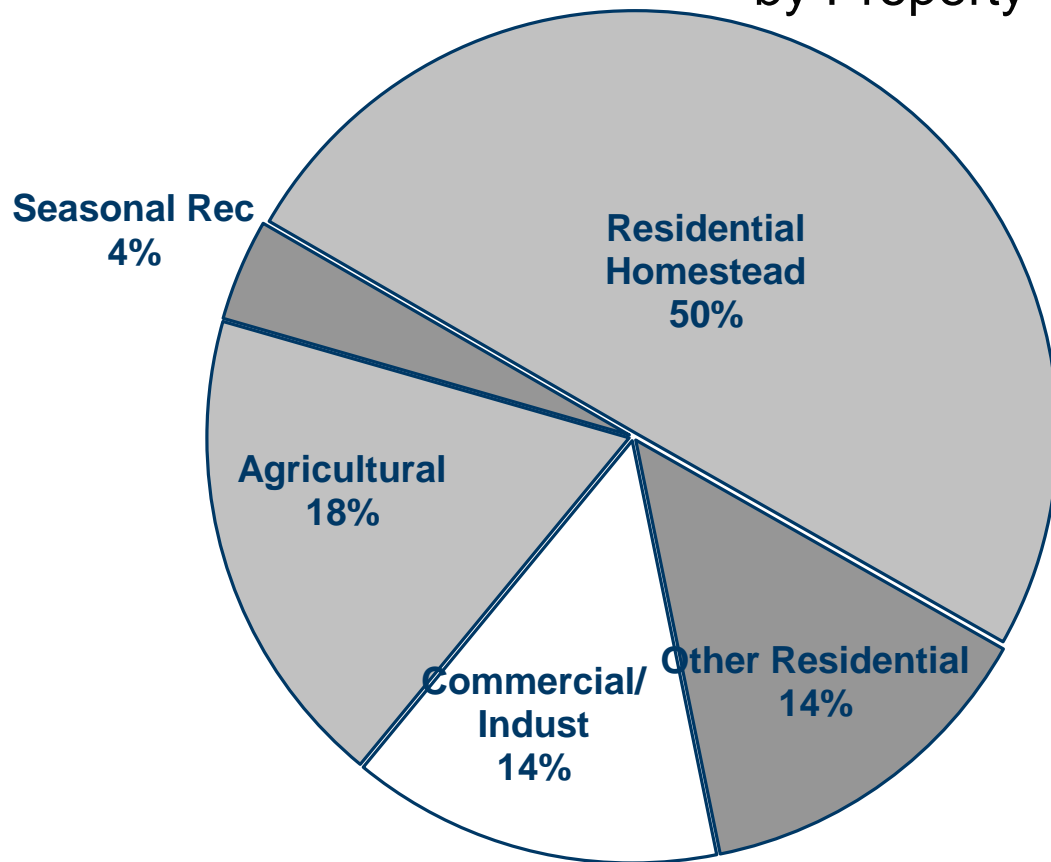
- Equalization – State pays for a portion of levy program based on certain criteria
  - Most of the calculations are a ratio between residential pupil units against ANTC valuation
- Tax Credits – State will pay portion of property tax of home owner after levy is spread
  - Agricultural Bond Credit

# Context: Overall Public Finance System- Property Tax

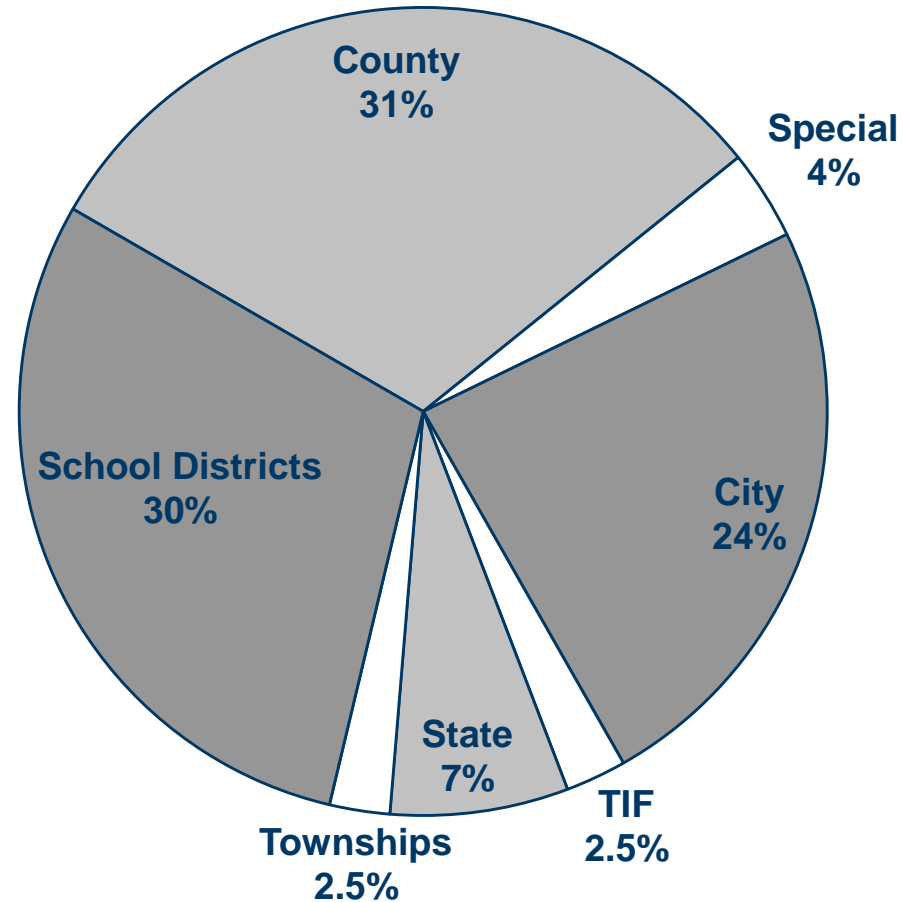
Market Value  
(\$767 Billion)

Taxes Paid  
(\$11.162 Billion)

by Property Type, Taxes Payable in 2020

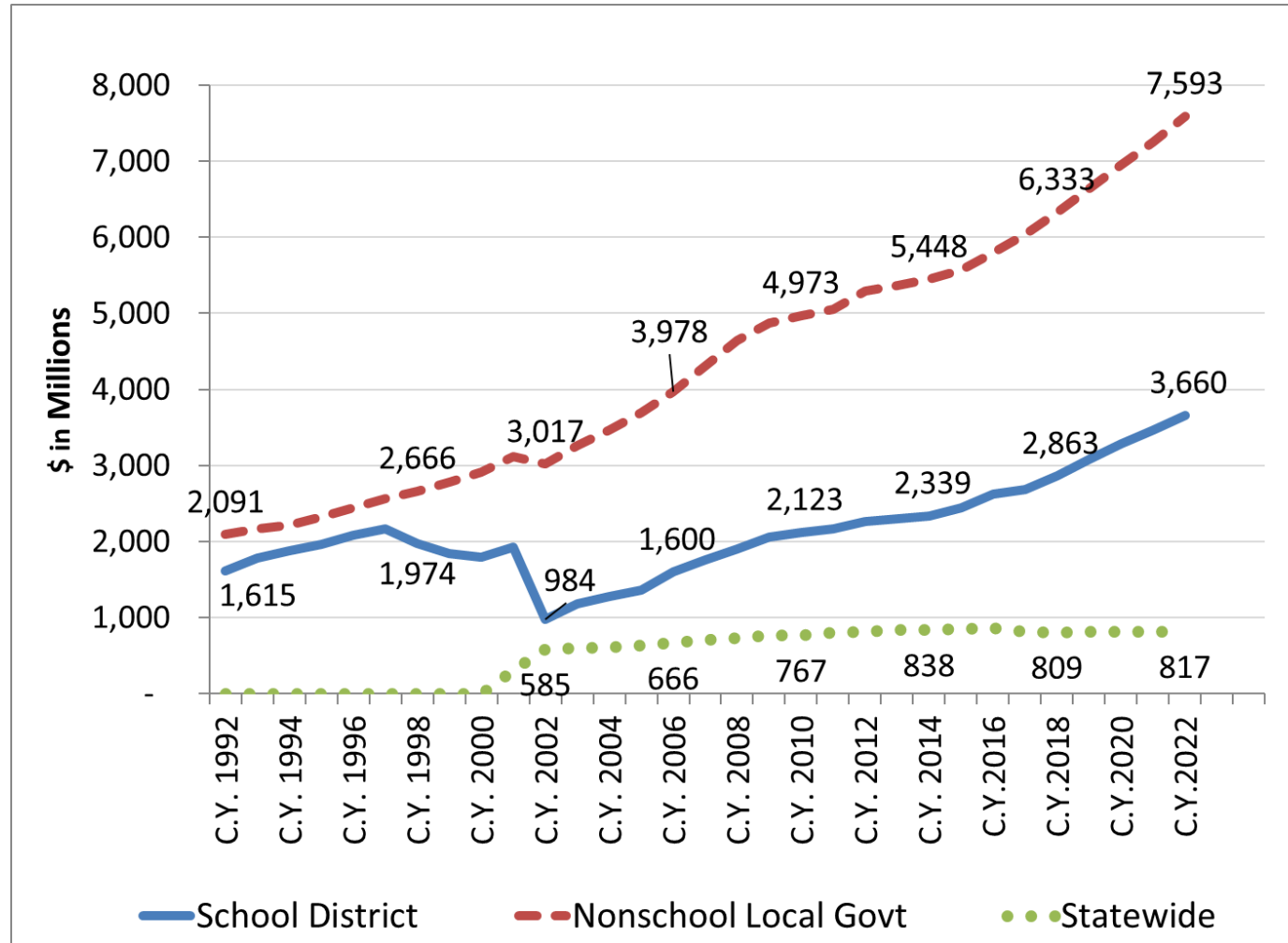


# Property Taxes by Type of Government Payable in 2020: \$11.162 Billion



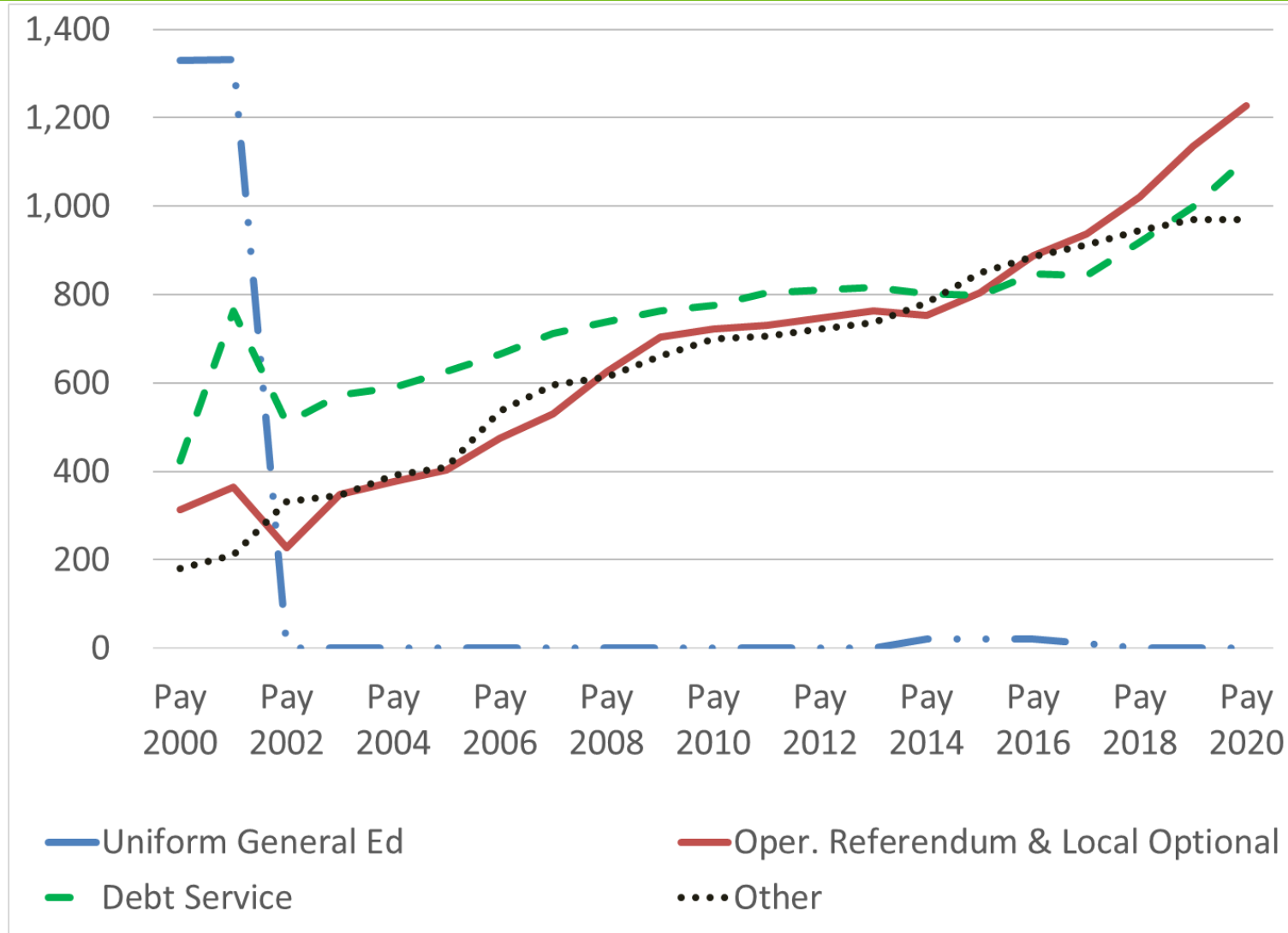
# Property Tax Levies: School vs Non School

## Payable 1992 – 2022; COG 33-year Spreadsheet



# School District Certified Levy by Type

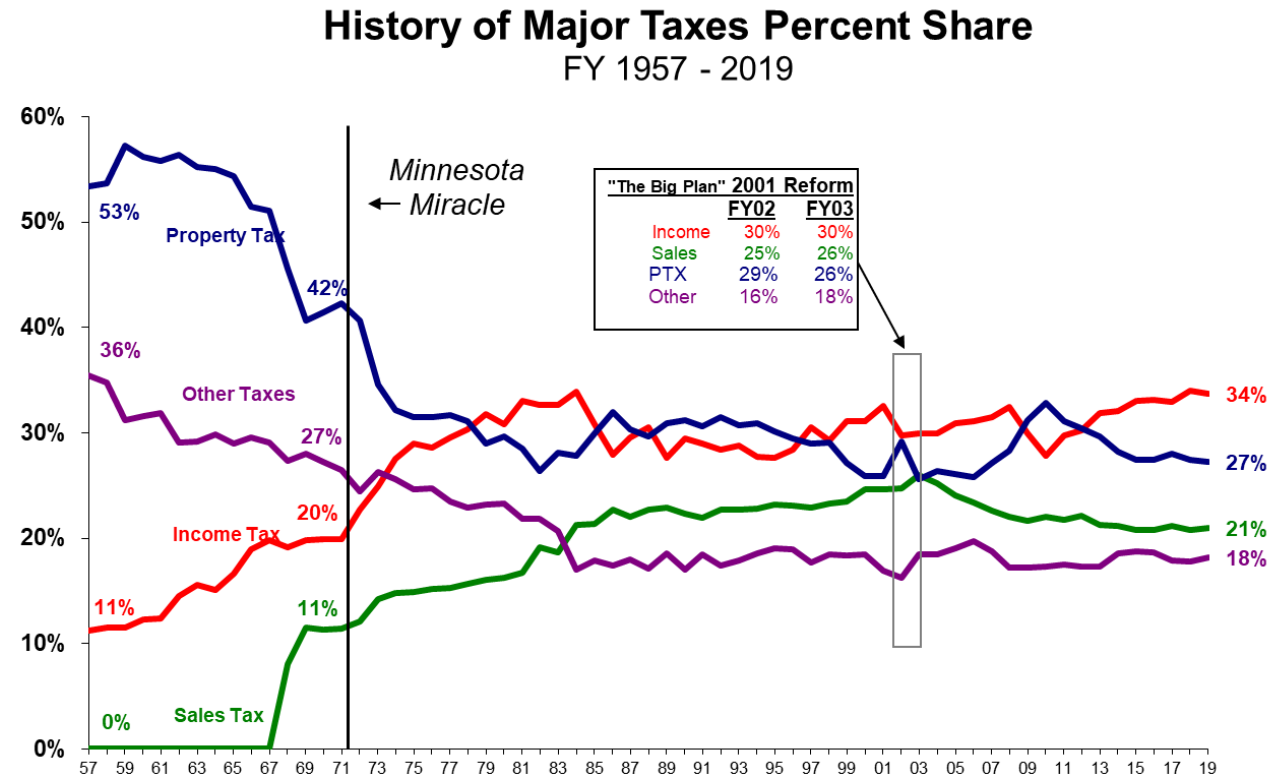
Current \$ in Millions; February 2020 Forecast





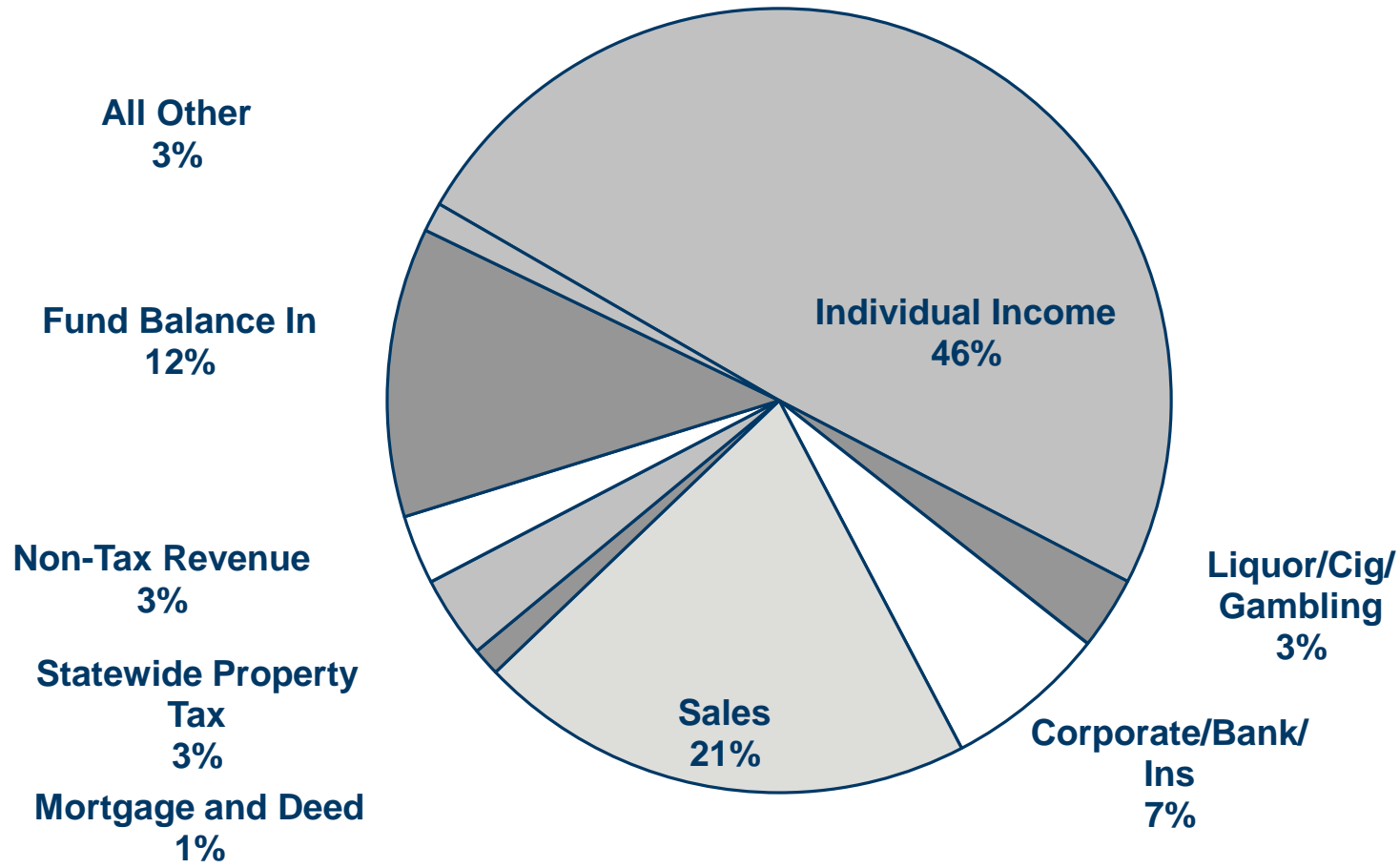
# State and Local Tax Revenue History

## November 2019 Forecast



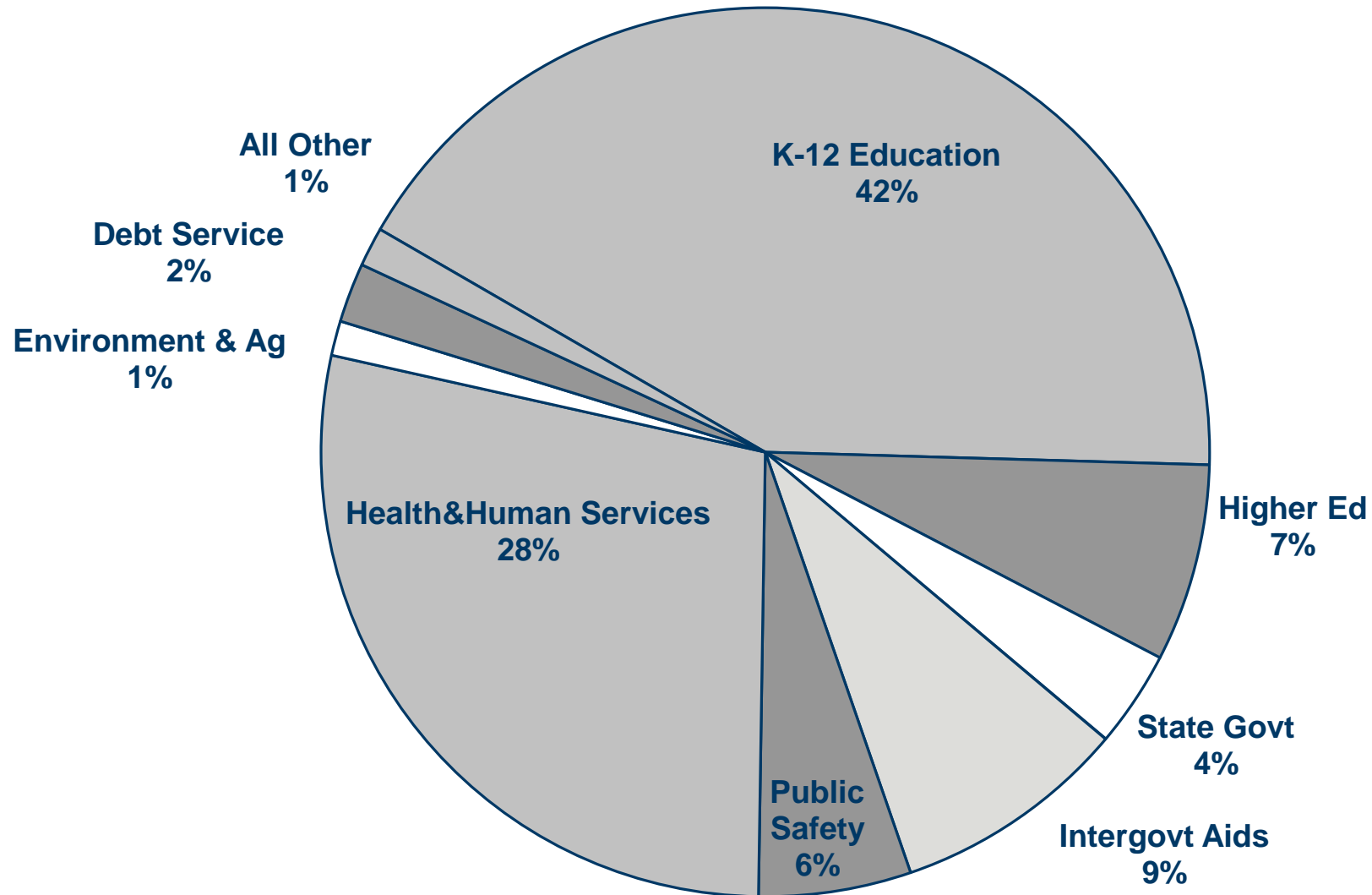
Source: Minnesota Department of Revenue and  
Price of Government, November 2019  
Includes sales tax rebates FY 1999-2001

# Where the Money Comes From: FY 21 State General Fund Resources \$27.293 Billion

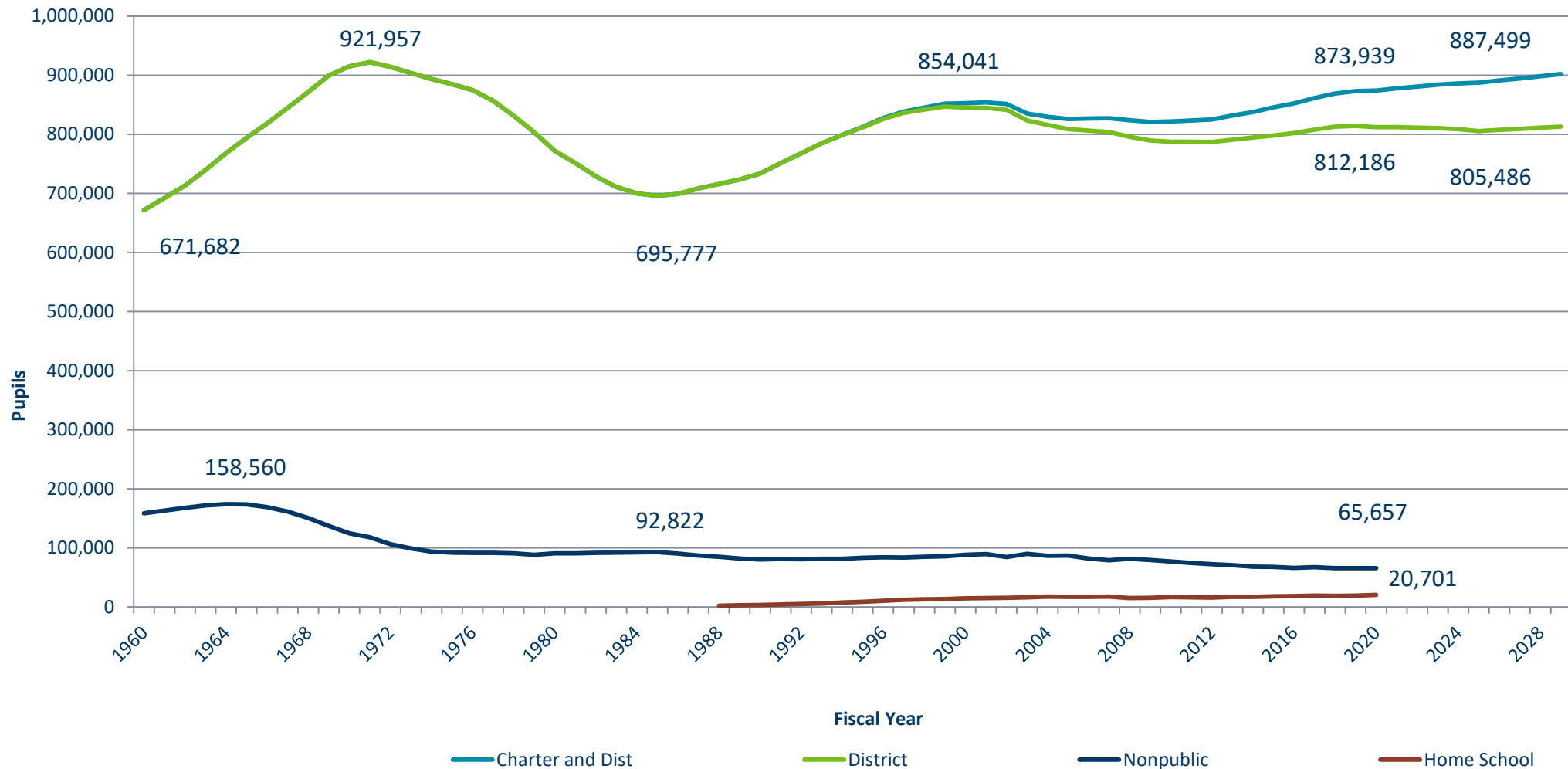


# Where the Money Goes

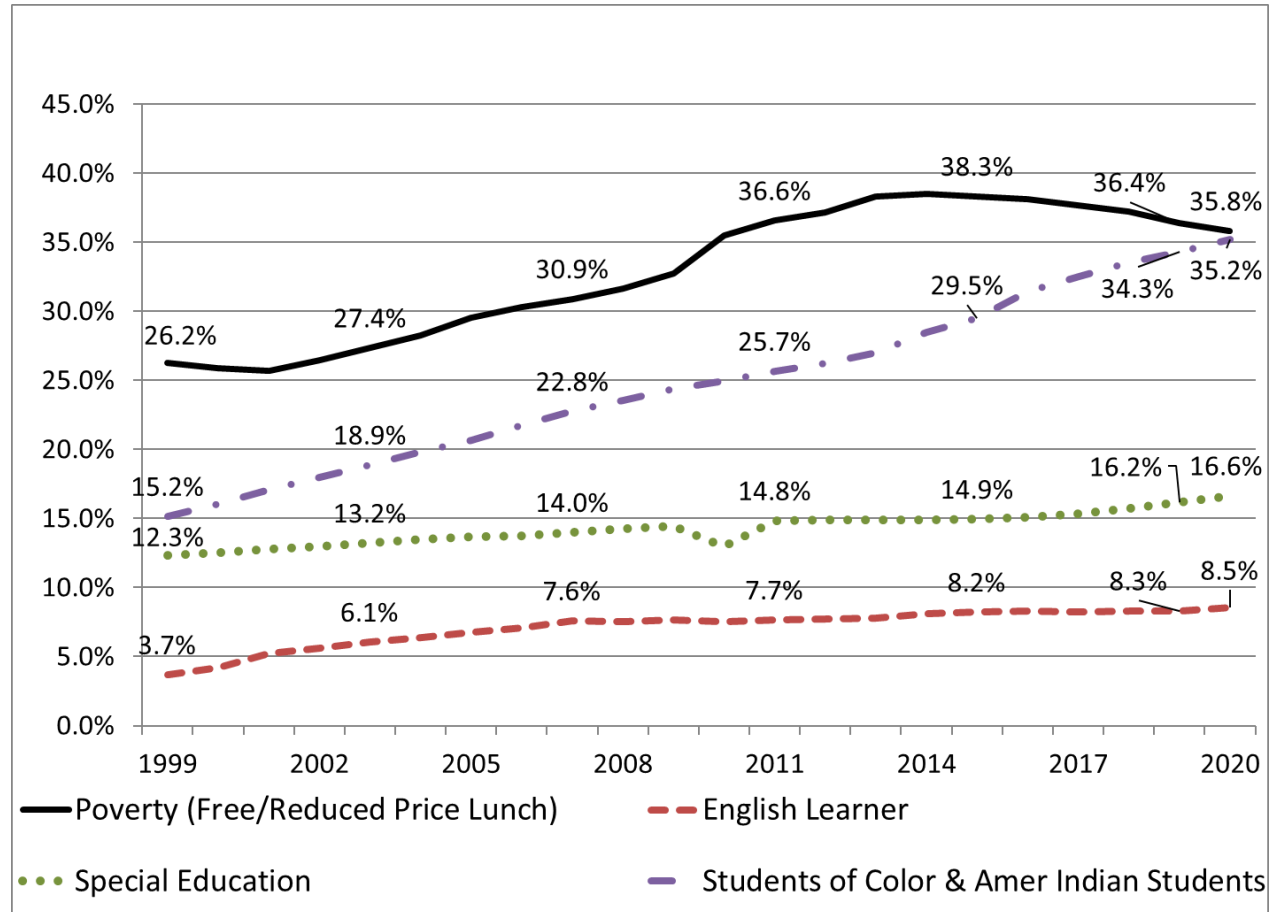
## FY 21 State General Fund Spending \$23.849 Billion



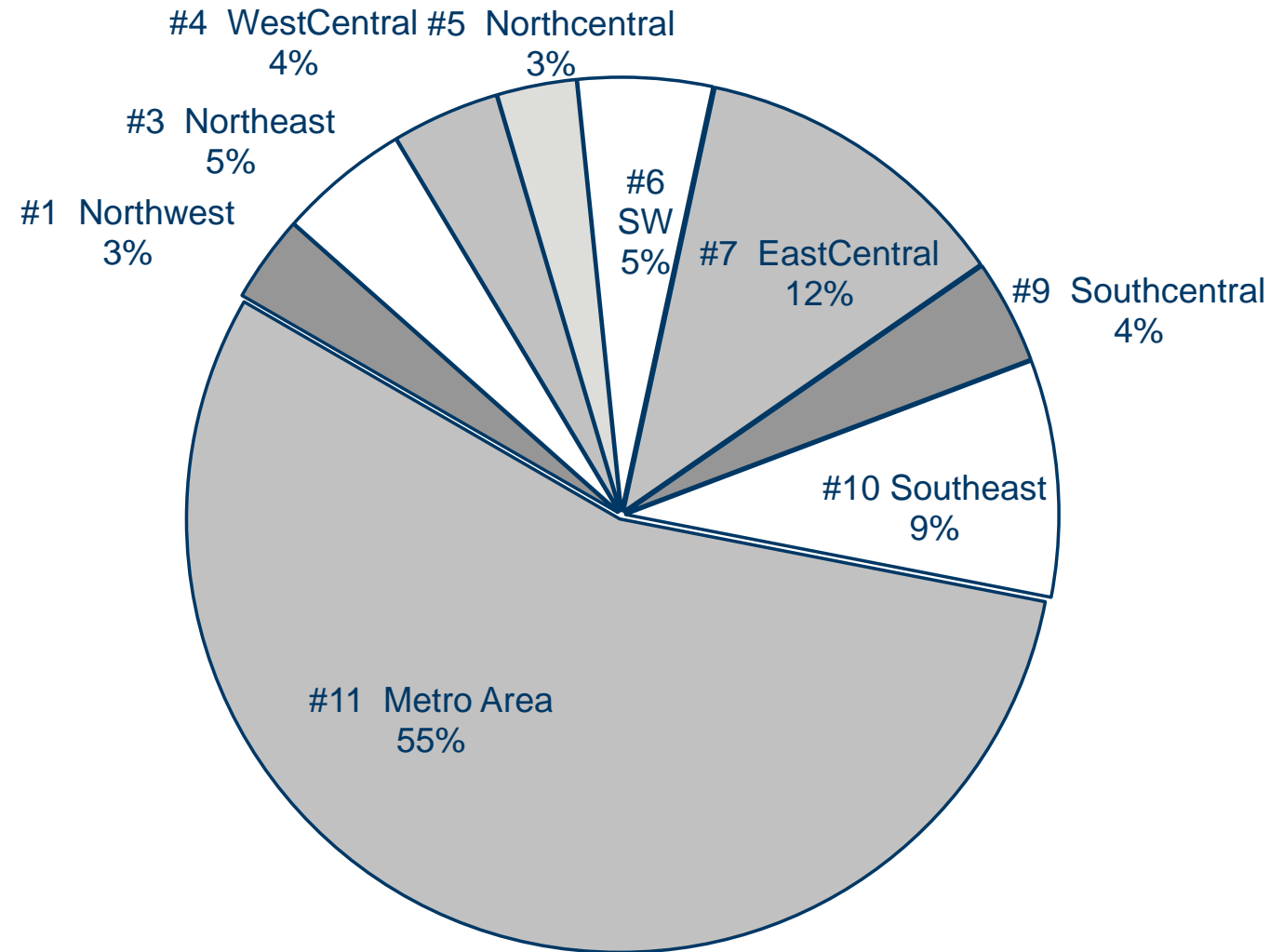
# Context: Minnesota School Enrollment State Total Enrollment, 1960 to Forecasted 2025



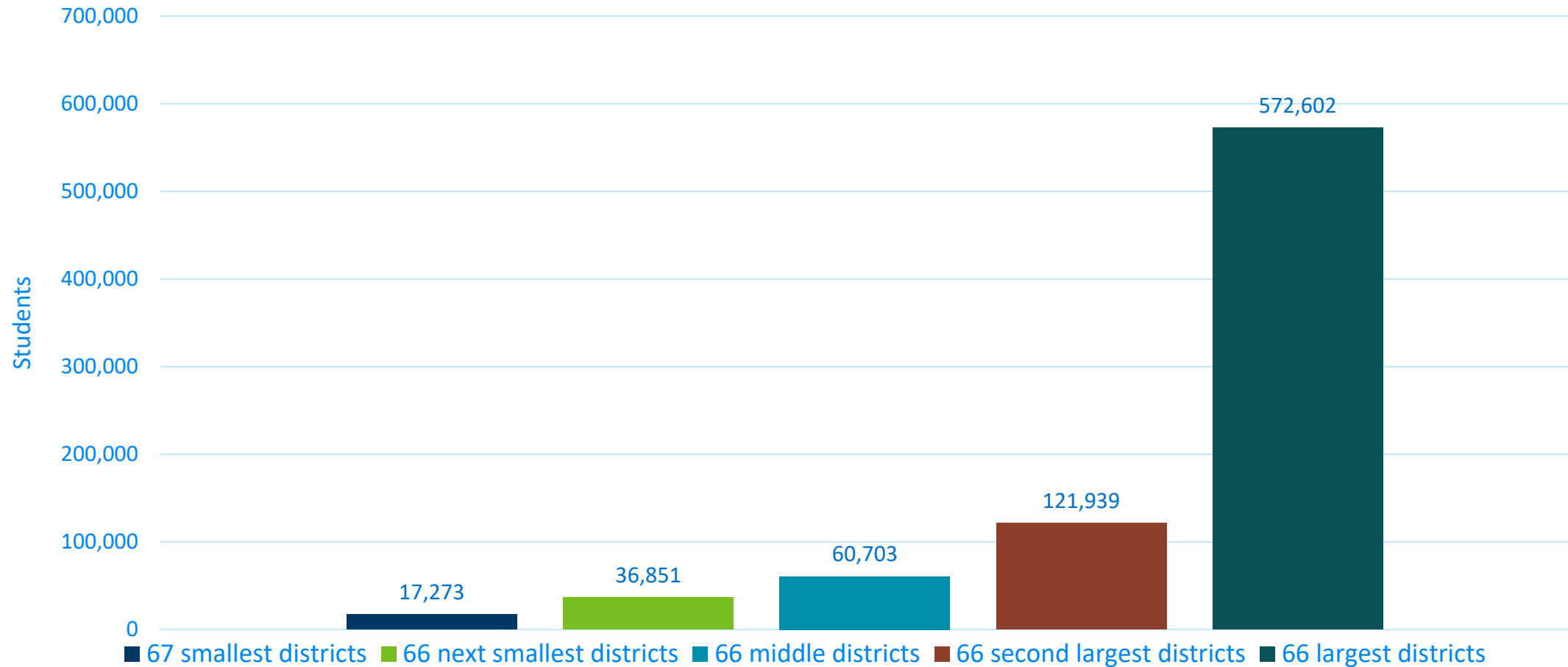
# Special Populations as Percent of Public School Enrollment – November 2019



# School Enrollment (District and Charter) by Service Coop Region FY 2020

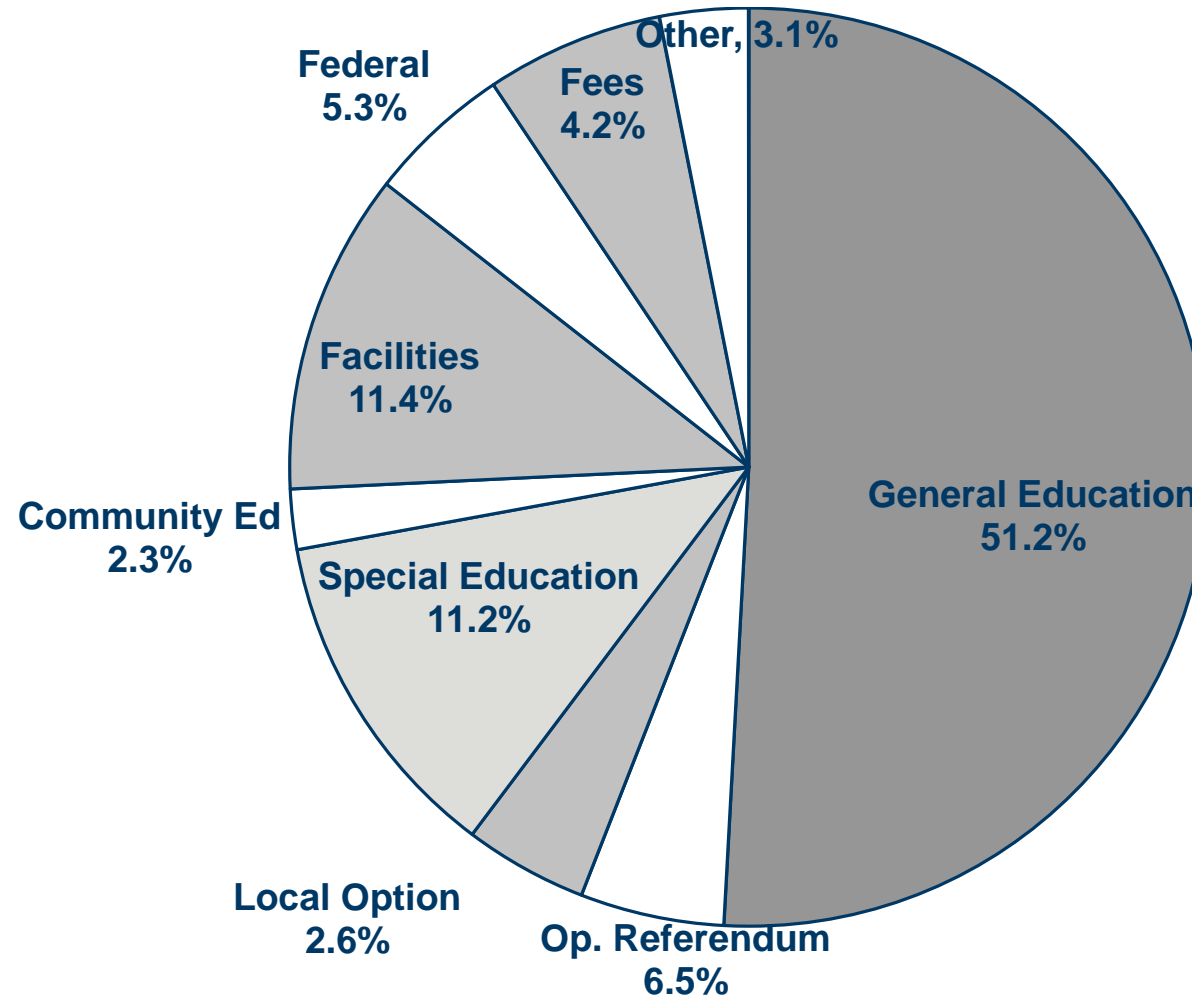


# Percent of Students Enrolled by School District Size Quintile FY 2020



# Major Components of the School Finance System

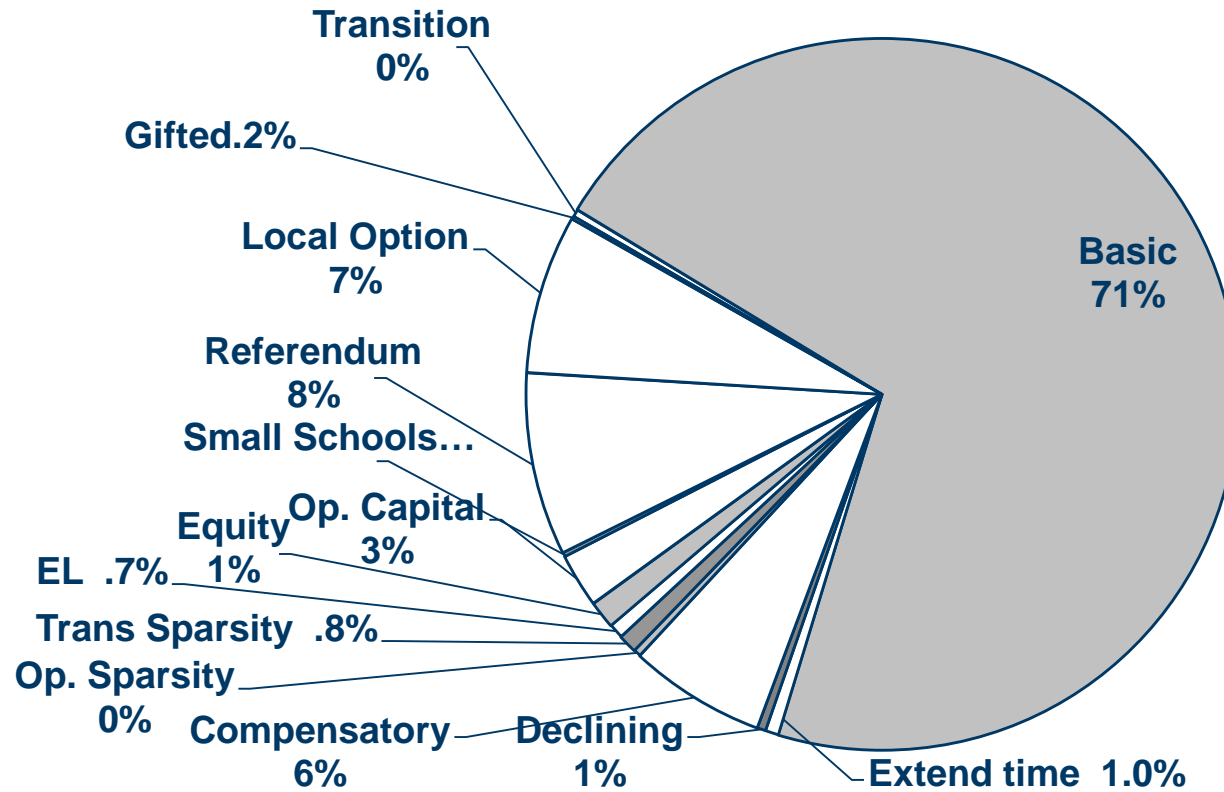
Estimated Total Revenue for Schools FY 21: \$14.781 Billion





# General Education Revenue by Component

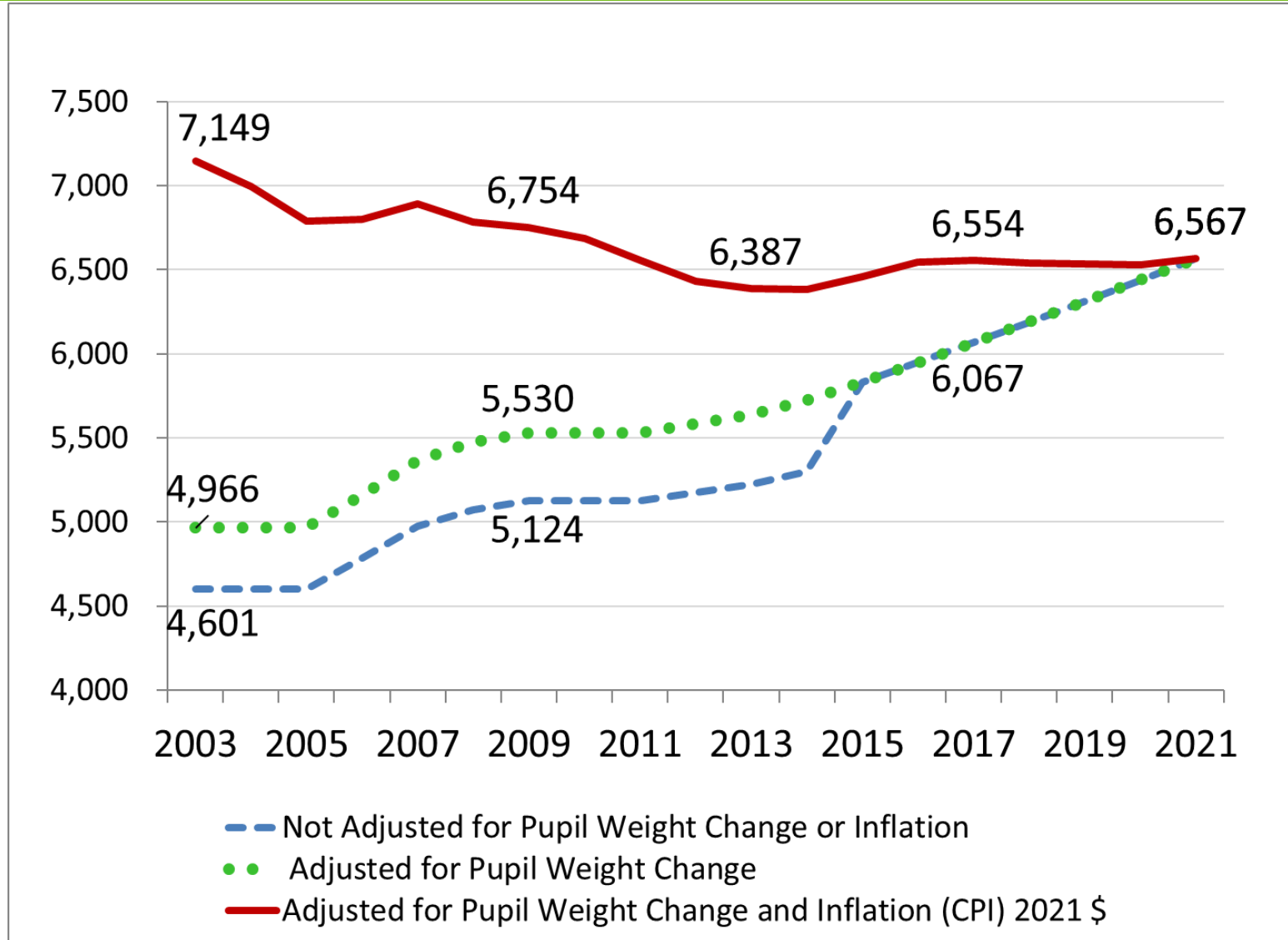
## \$8.801 Billion FY 2021



# EDUCATION FUNDING TRENDS

## General Ed Formula Adjusted for Pupil Weight Change and Inflation (CPI)

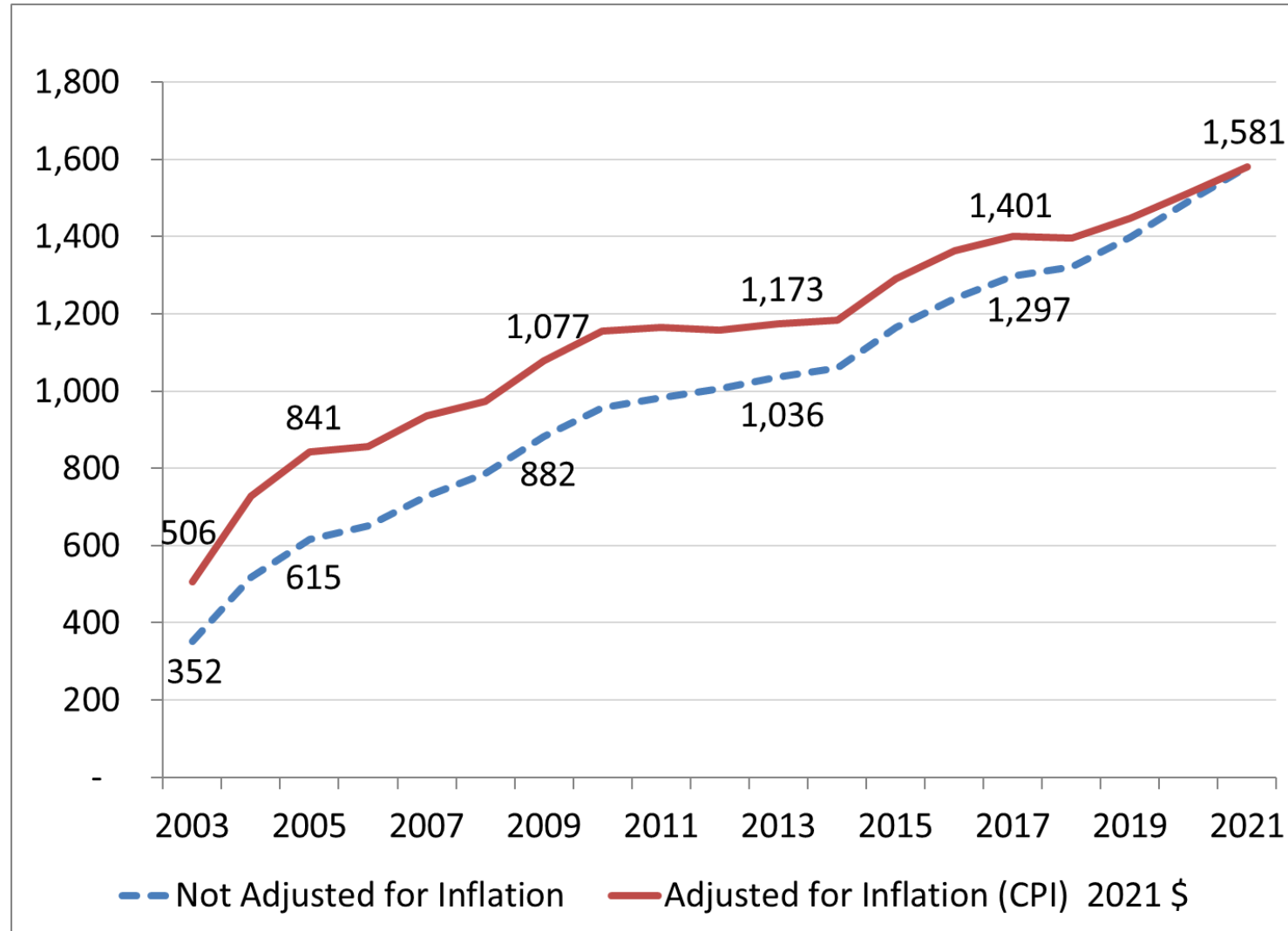
### February 2020 Forecast



# EDUCATION FUNDING TRENDS

## Referendum and Local Optional Revenue per Student

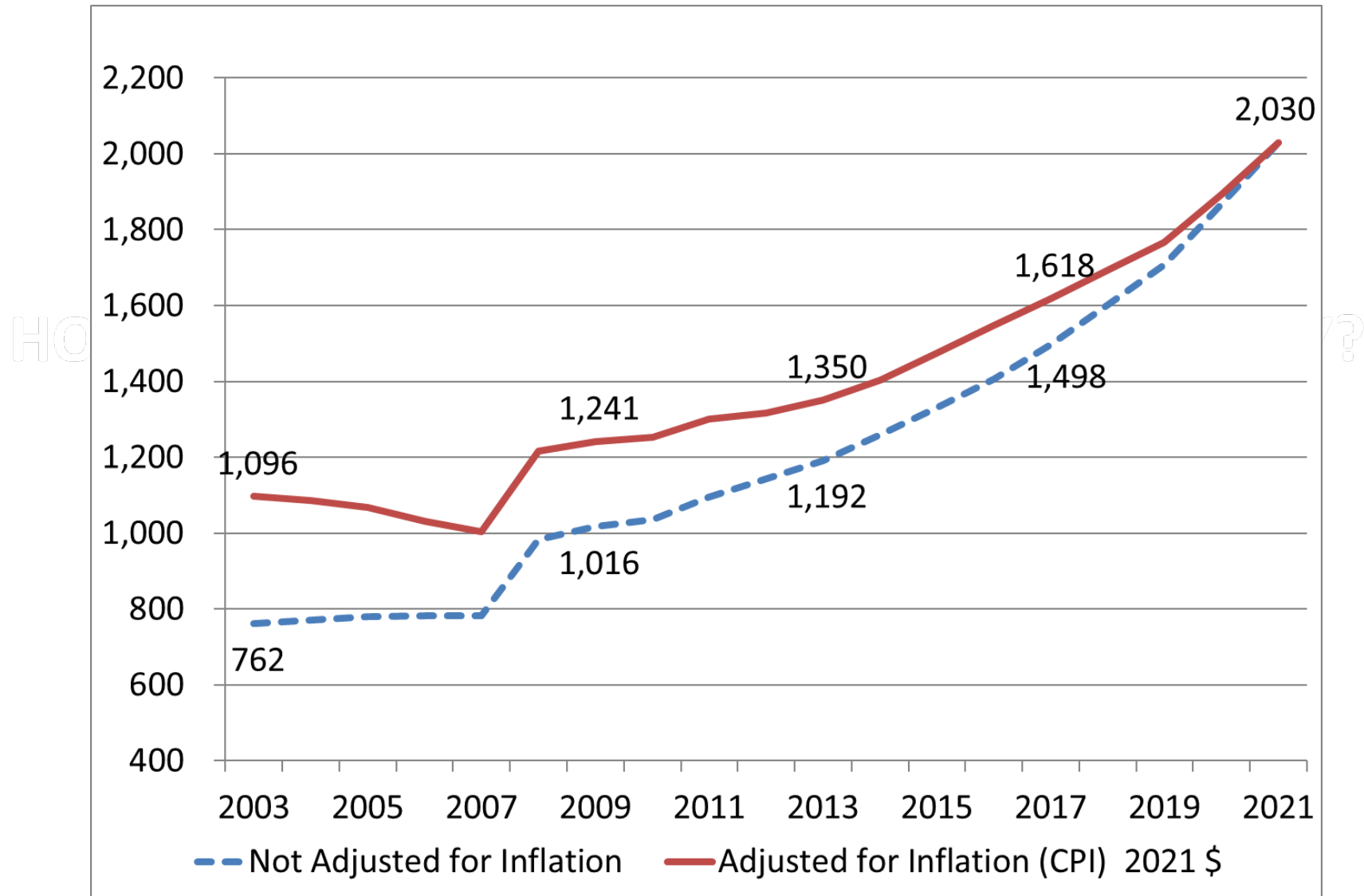
February 2020 Forecast



# EDUCATION FUNDING TRENDS

## State Special Education Aid per Student (ADM)

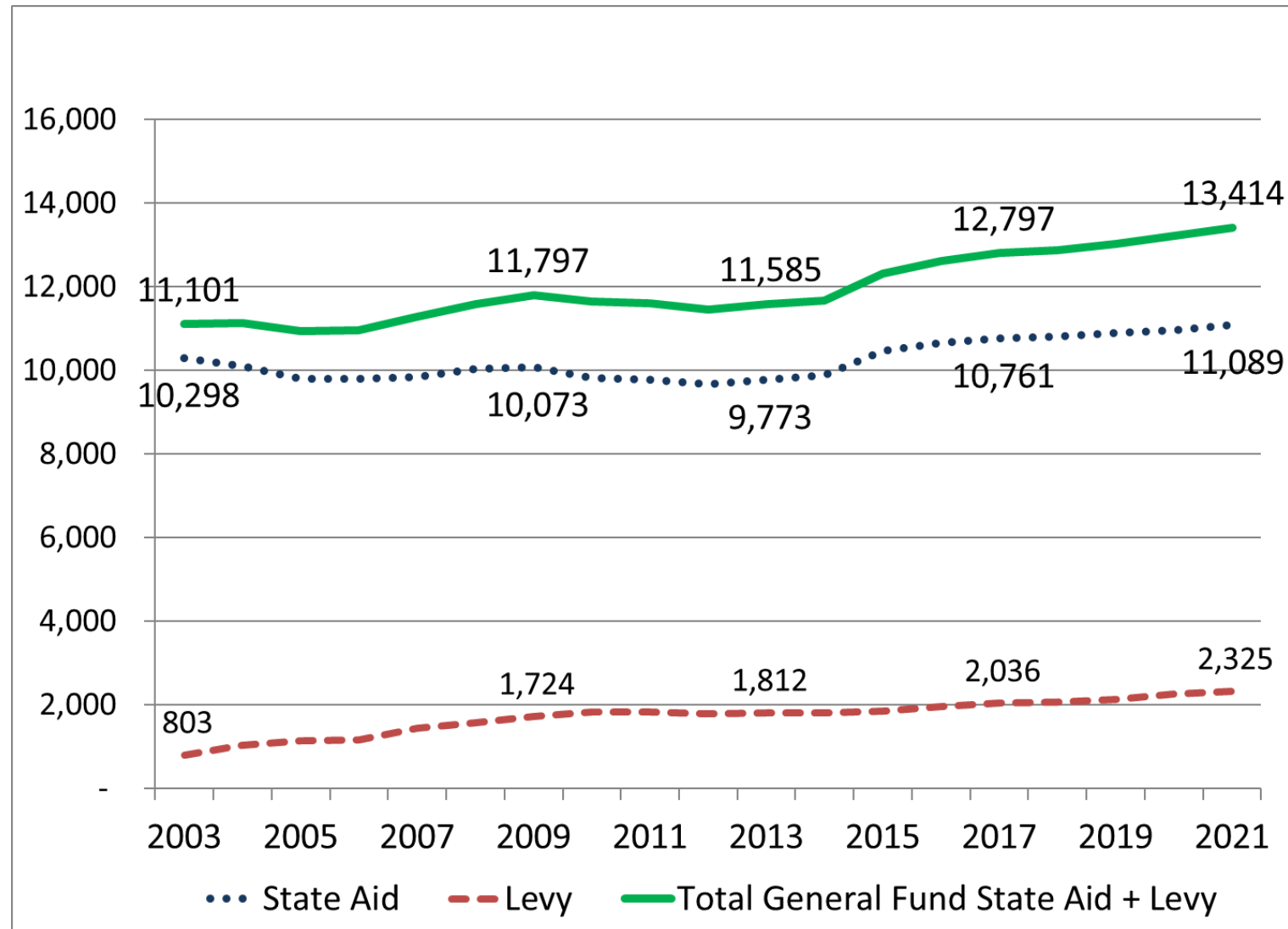
February 2020 Forecast



# EDUCATION FUNDING TRENDS

## Inflation-Adjusted General Fund Revenue per Student by Source

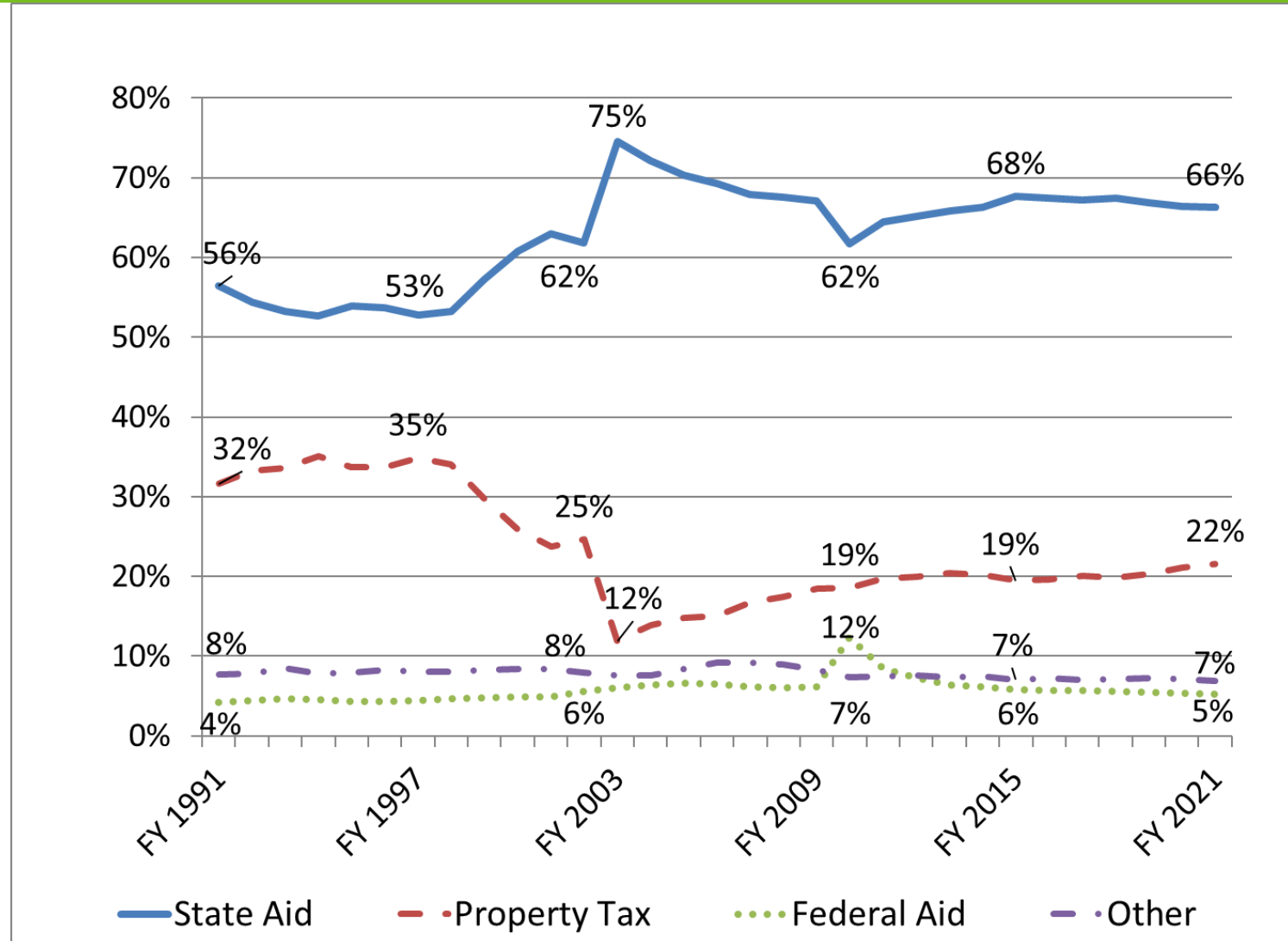
February 2020 Forecast



# EDUCATION FUNDING TRENDS

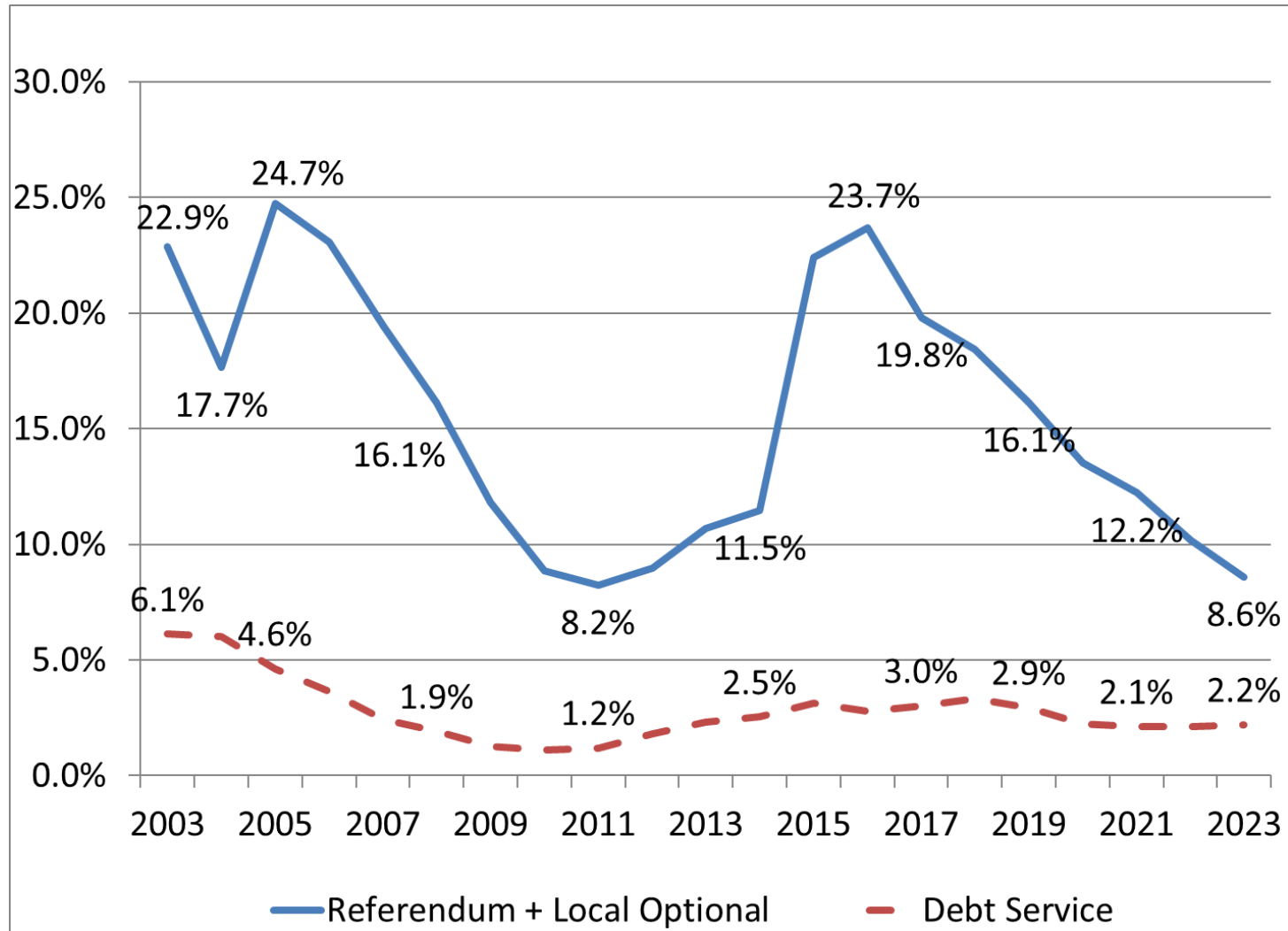
## PK-12 Education Revenue by Source (All Funds)

### February 2020 Forecast



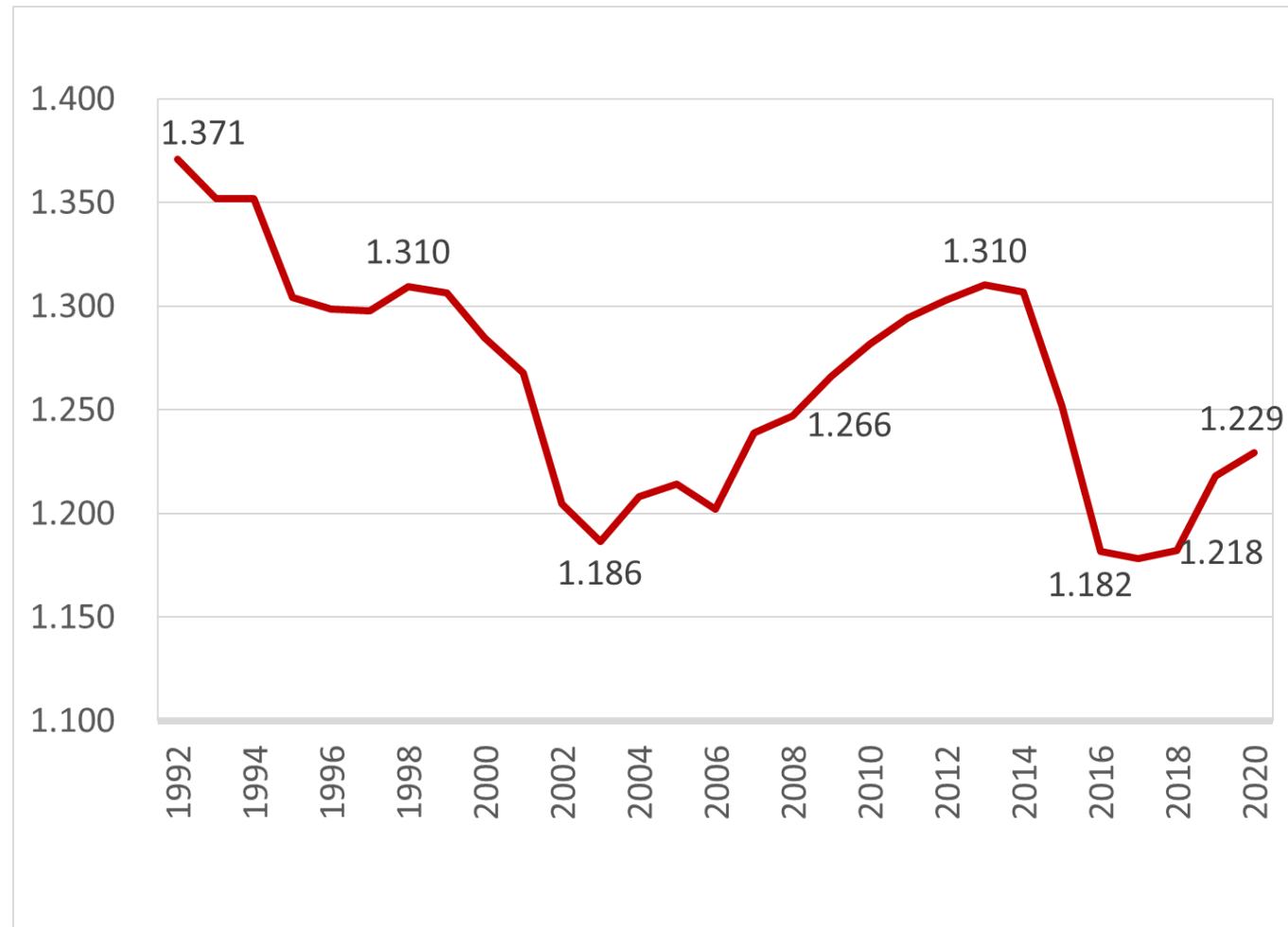
# EDUCATION FUNDING TRENDS

## State Share of Referendum + Local Optional and Debt Revenue February 2020 Forecast



# EDUCATION FUNDING TRENDS

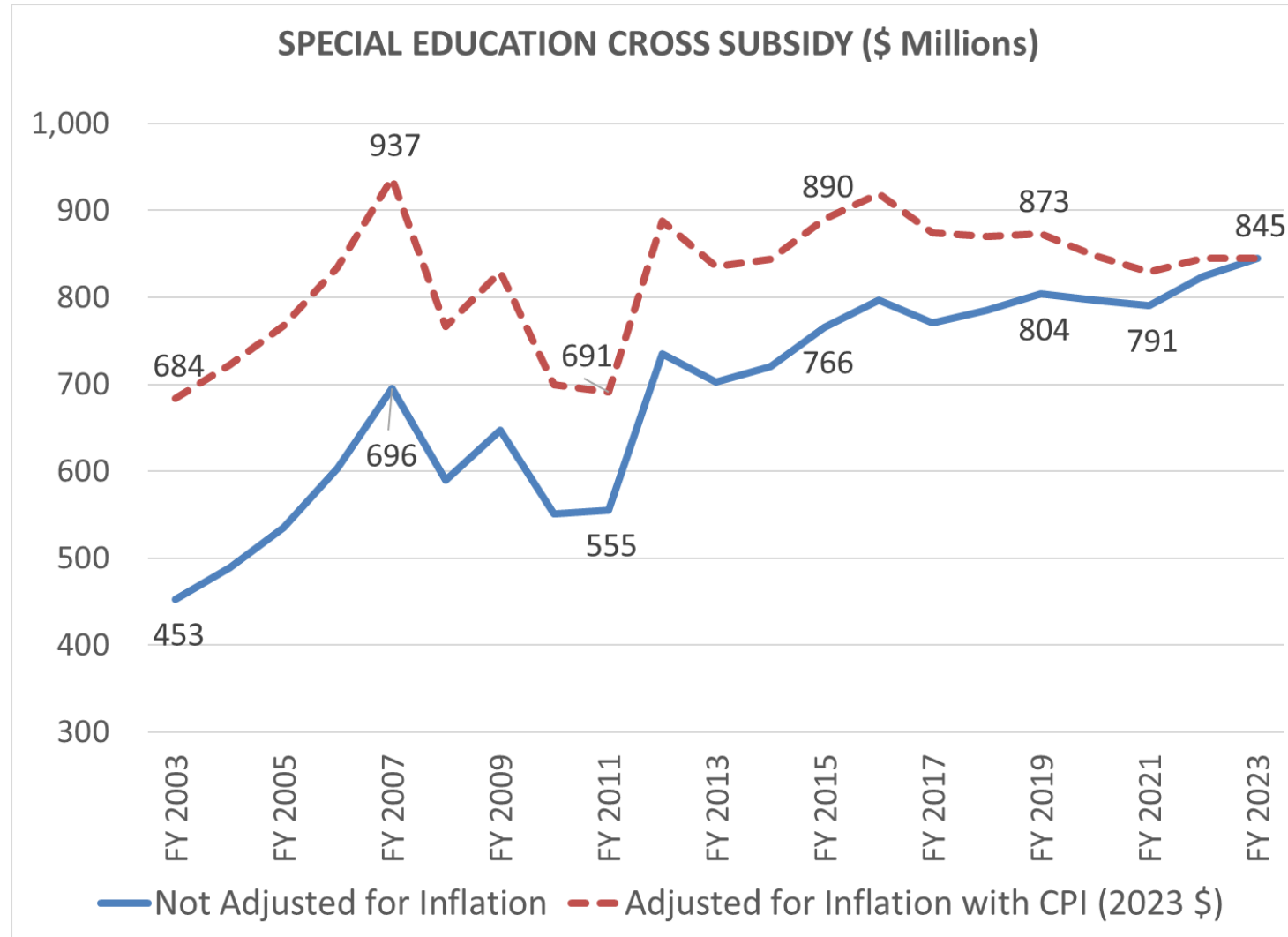
Disparity in Unrestricted General Revenue per Student  
95<sup>th</sup> to 5<sup>th</sup> Percentile Ratio, December 2019 Report





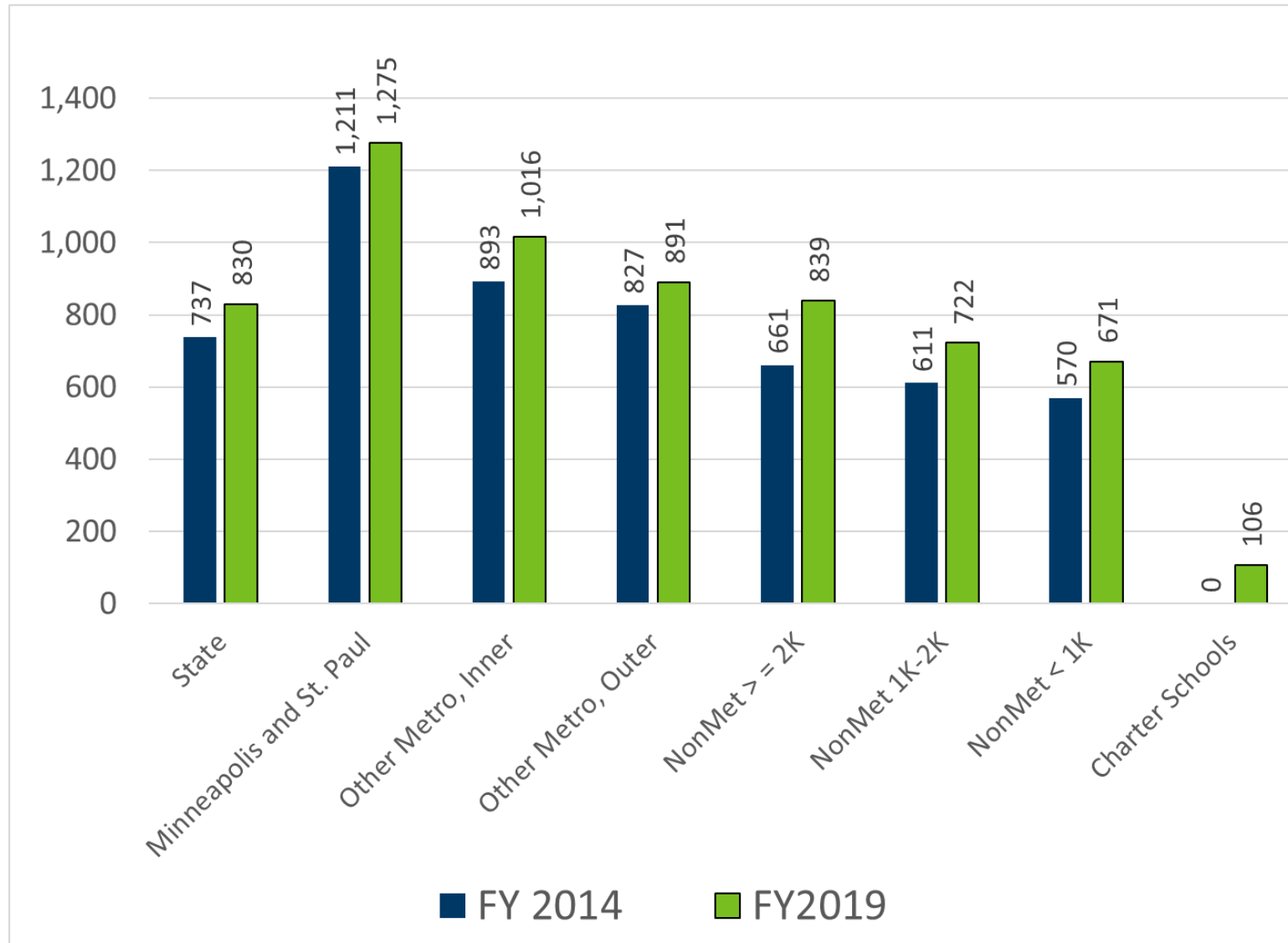
# Special Education Cross Subsidy per ADM

## February 2020 Forecast



# AVERAGE SPECIAL EDUCATION CROSS SUBSIDY

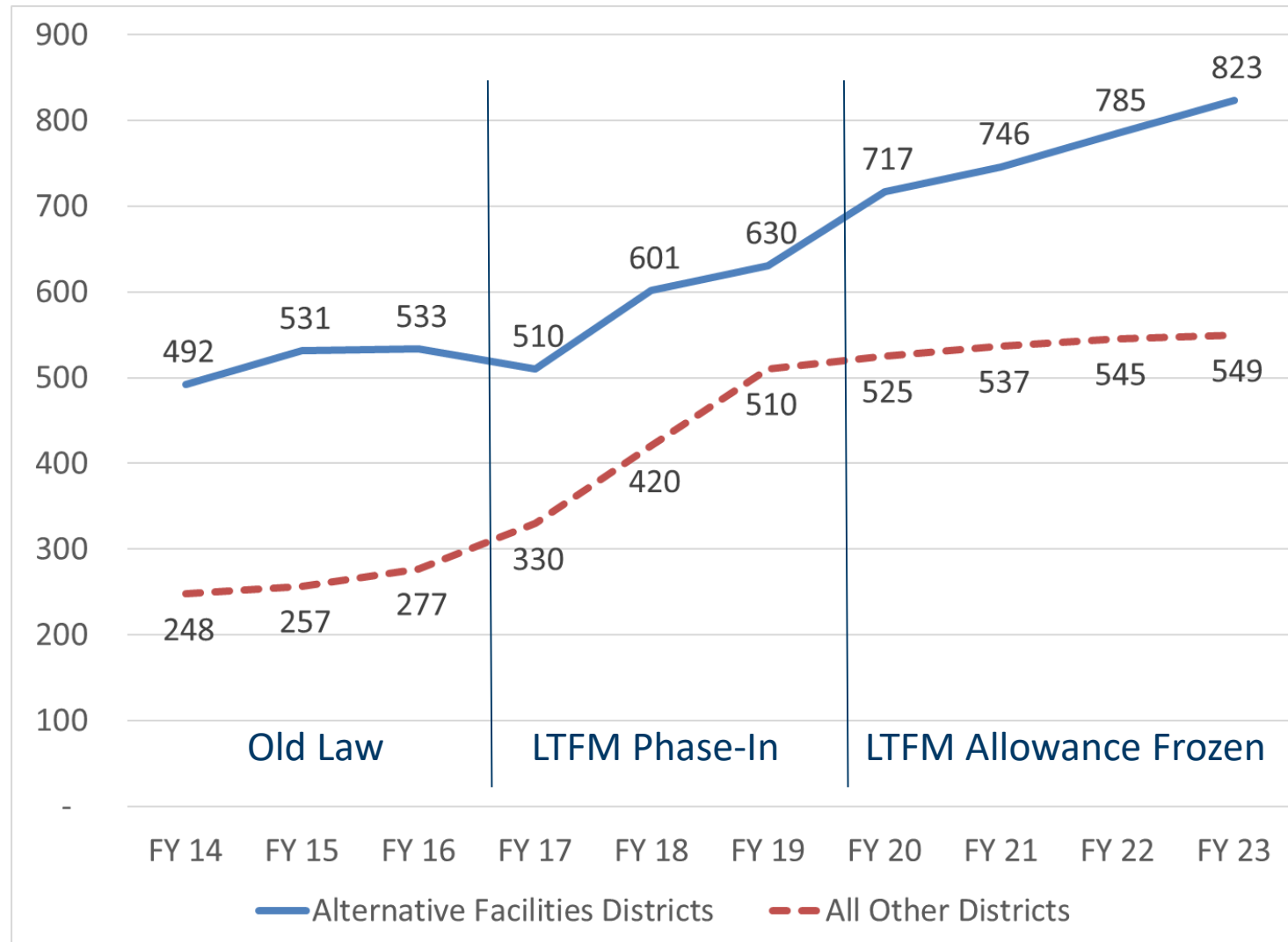
## Per WADM by District Type, FY 2014 AND FY 2019



# Long Term Facilities Maintenance Revenue/ADM

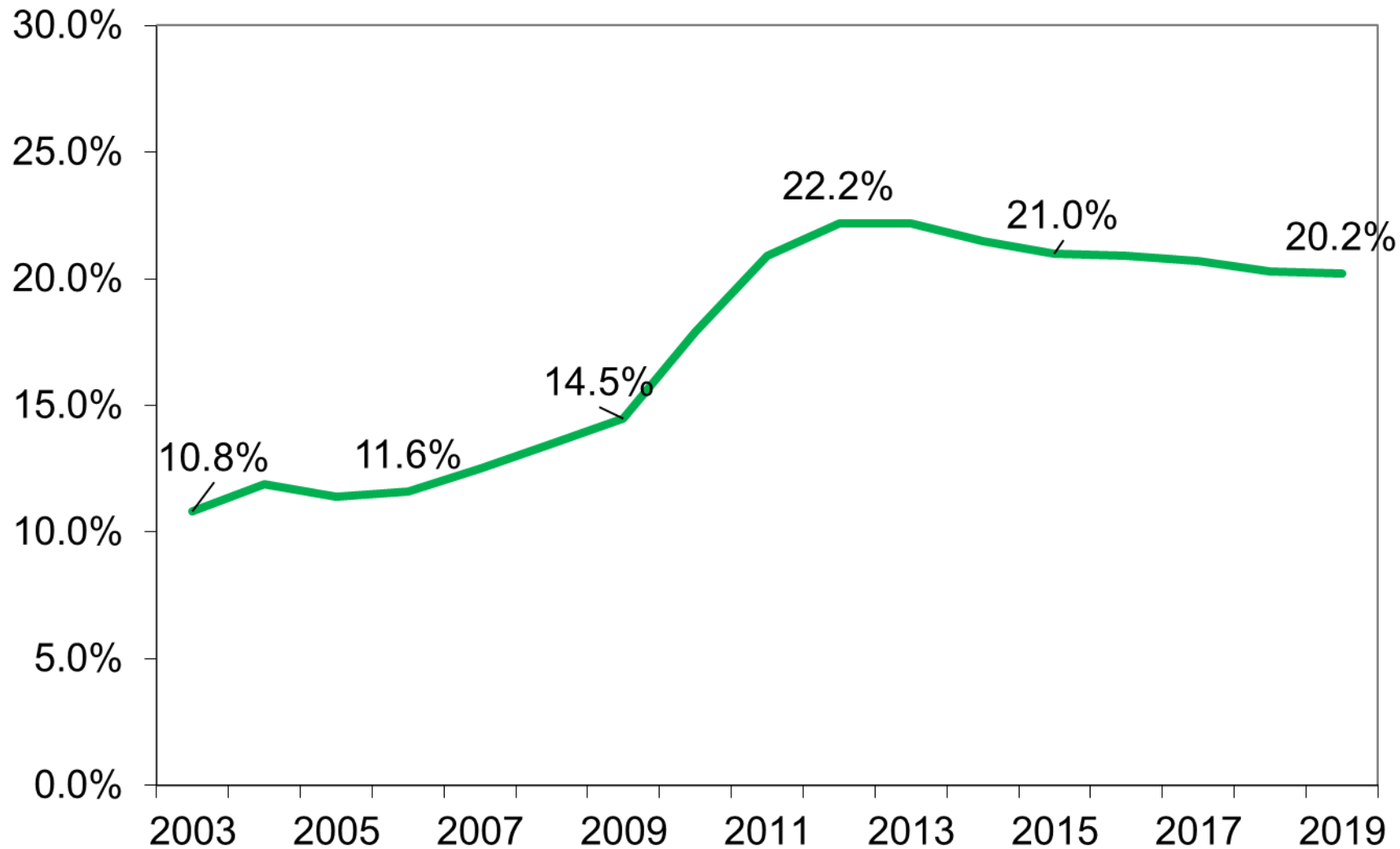
## Alternative Facilities Districts versus All Other Districts

### February 2020 Forecast



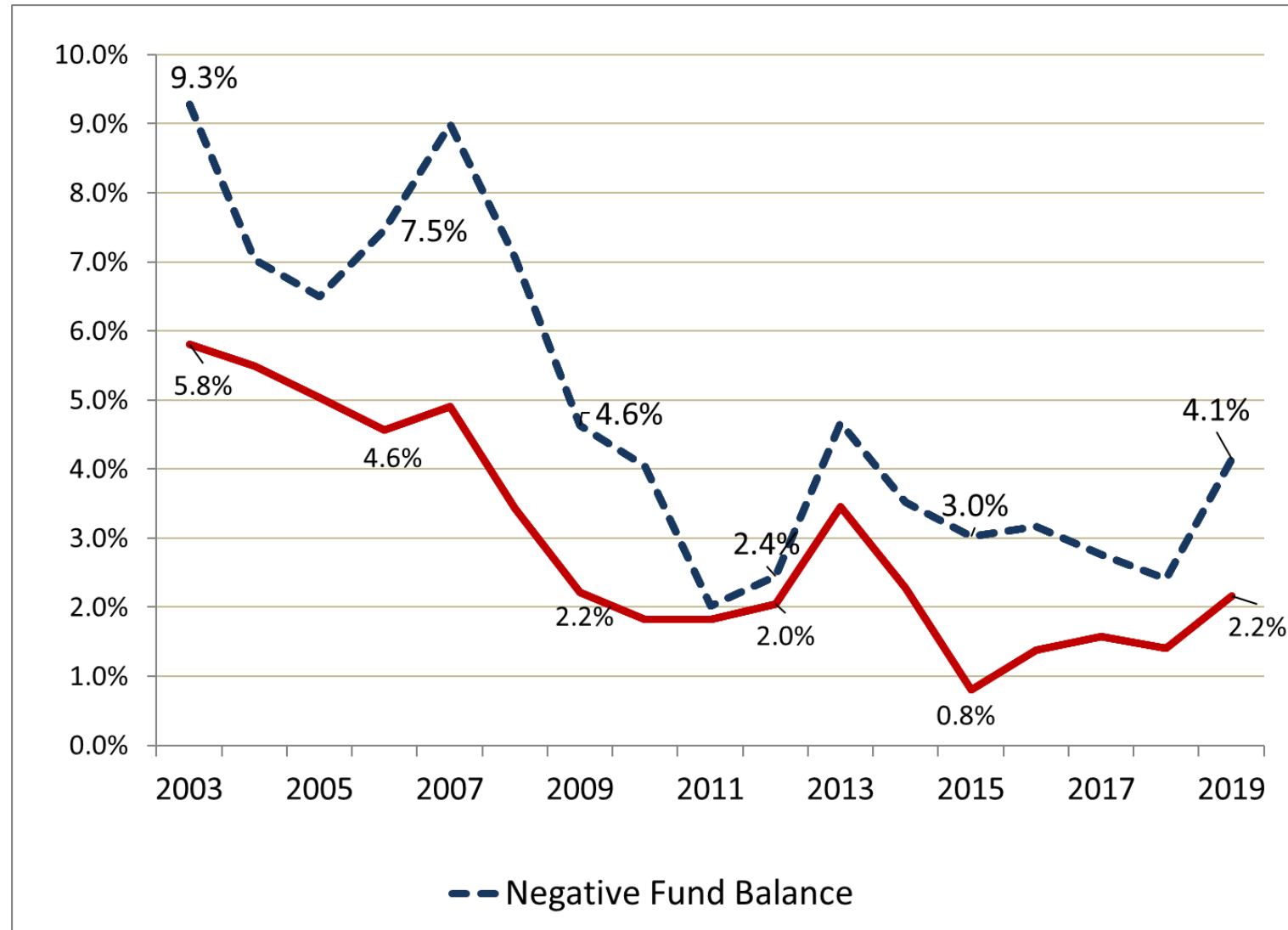
# EDUCATION FUNDING TRENDS

## Unreserved General Fund Balance Of School Districts And Charter Schools As Percent Of Expenditures



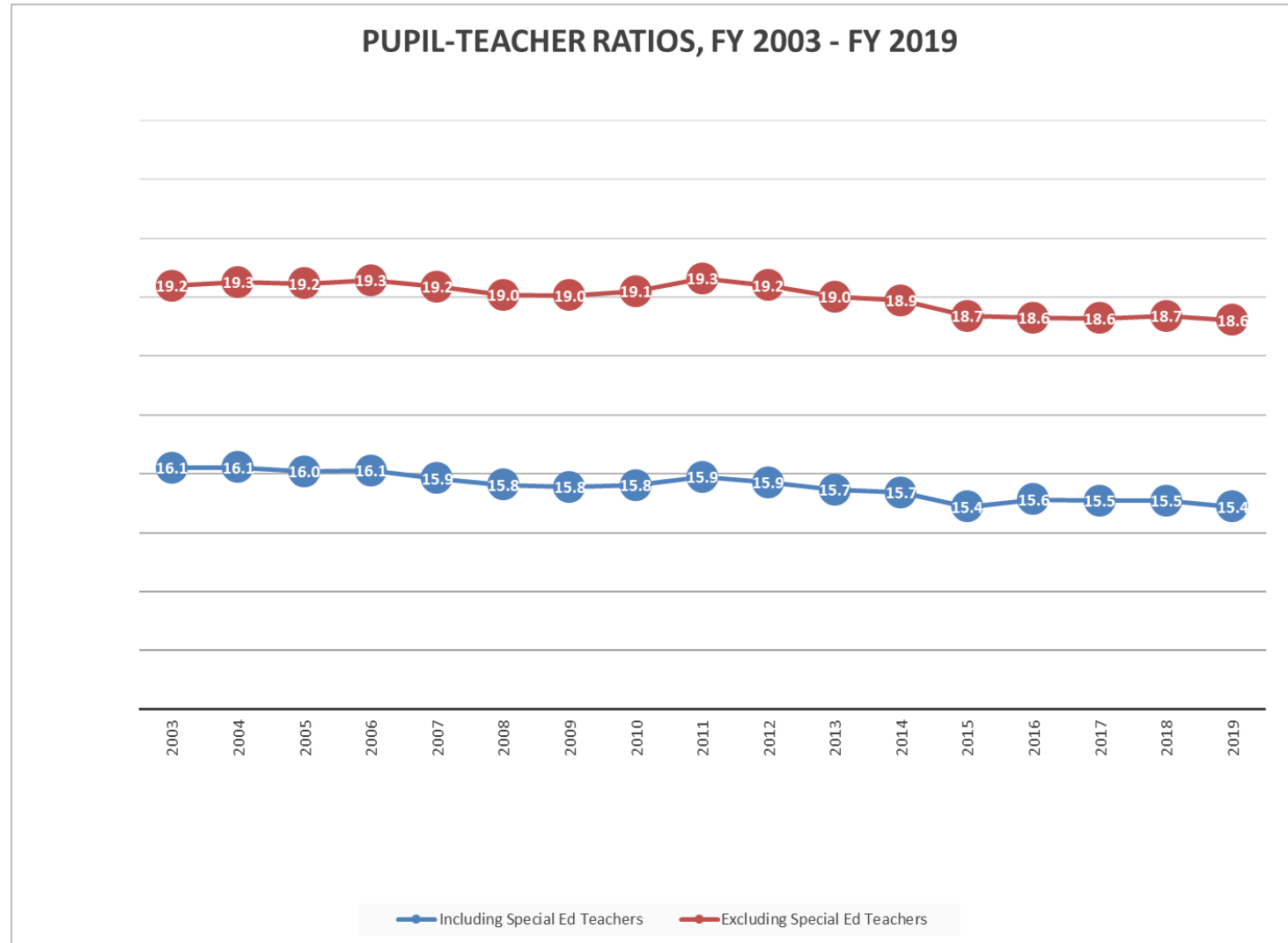
# EDUCATION FUNDING TRENDS

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



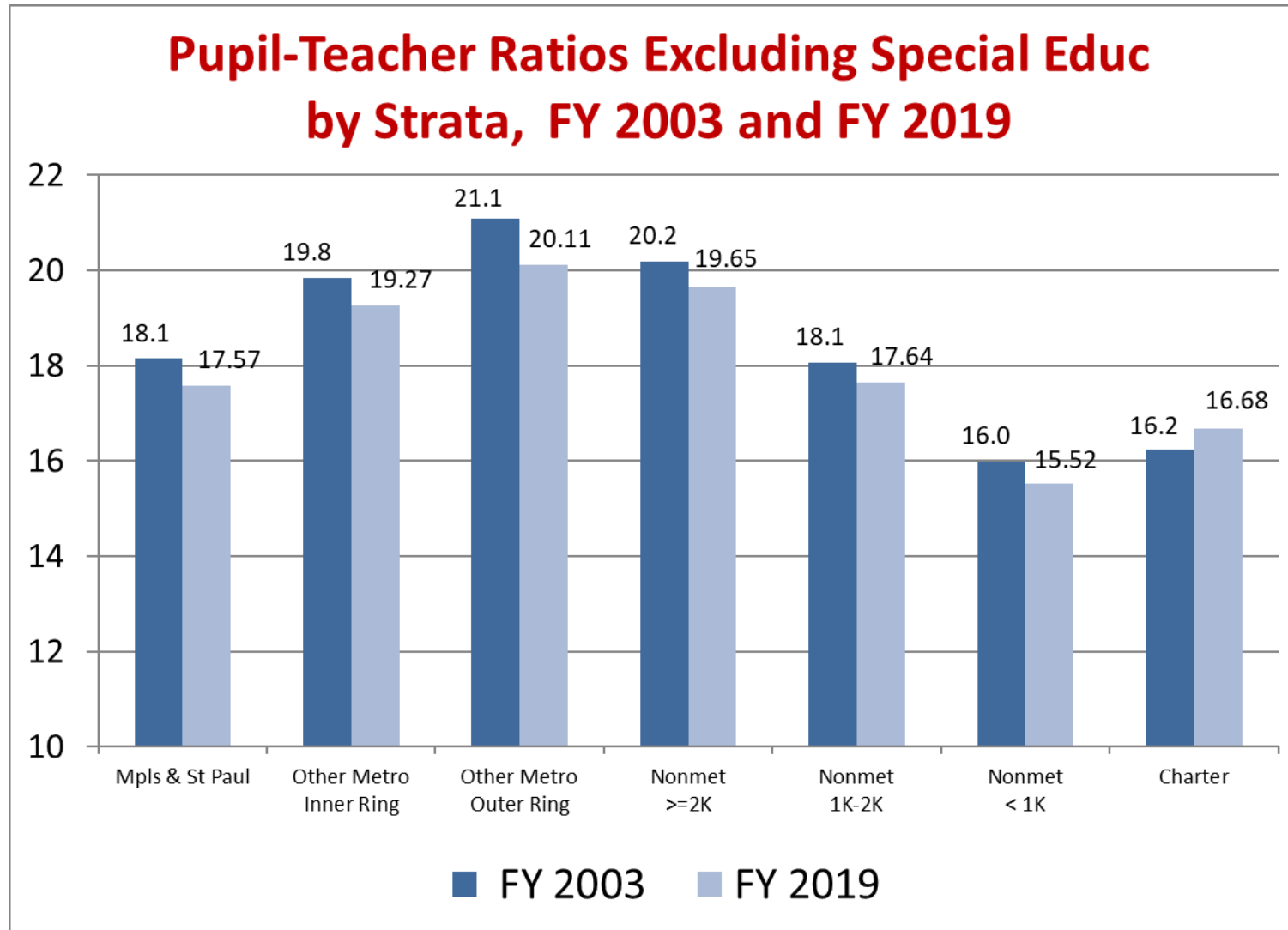
# Pupil-Teacher Ratios

## FY 2003 - 2019



# Pupil-Teacher Ratios Excluding Special Ed Teachers

## By Strata, FY 2003 and FY 2019



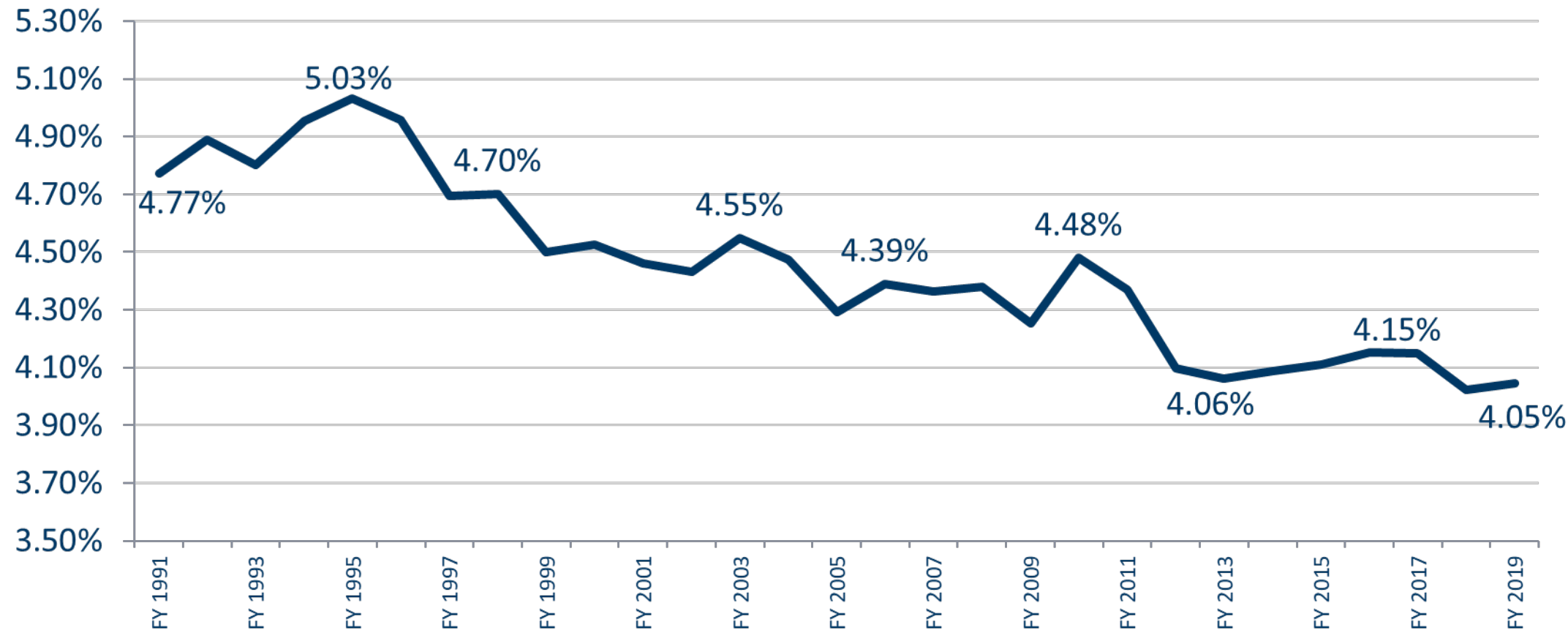
## 5) State General Fund Budget November 2020 Forecast (\$ in millions)

	FY 2020/21	FY 2022/23
Beginning Balance	3,971	3,444
Revenue	47,100	49,494
Spending	47,627	51,110
Gap Between Revenue and Spending	527	1,616
Balance Forward Before Reserves	3,444	1,828
Cash Flow Account	350	350
Budget Reserve	2,377	1,886
Stadium Reserve	81	230
Forecast Budgetary Balance	636	-638



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

Source: Price of Government



## 6) 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, 2019-20](#)
    - (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

# Questions?

