

School Finance Overview, Trends and Issues
School Finance Working Group

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Ten Minnesota
Commitments
to Equity

1. Prioritize equity.
2. Start from within.
3. Measure what matters.
4. Go local.
5. Follow the money.
6. Start early.
7. Monitor implementation of standards.
8. Value people.
9. Improve conditions for learning.
10. Give students options.

Topics

- **Overview of Minnesota School Finance**
 - Principles
 - How School Finance works
 - Enrollment breakdowns
 - Pupil accounting
 - Major components of the School Finance System
- **Trends**
- **Issues**

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Principles: 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.

Principles: 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...

Principles: Goals of State School Finance System

Adequacy and Equity for Students:

Ensure that all local educational 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

Principles: Goals of State School Finance System (2)

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
- 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).

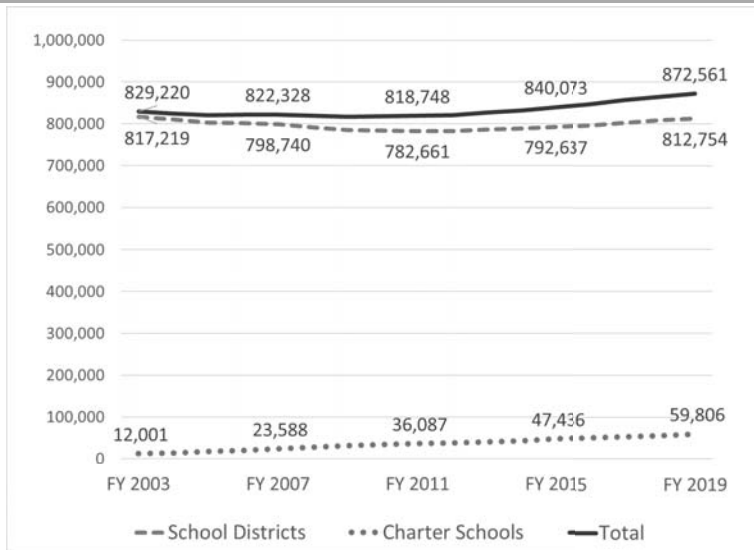
Equalizing factors are indexed to state average tax base/student to maintain stable state share of funding.

Principles: Goals of State School Finance System (3)

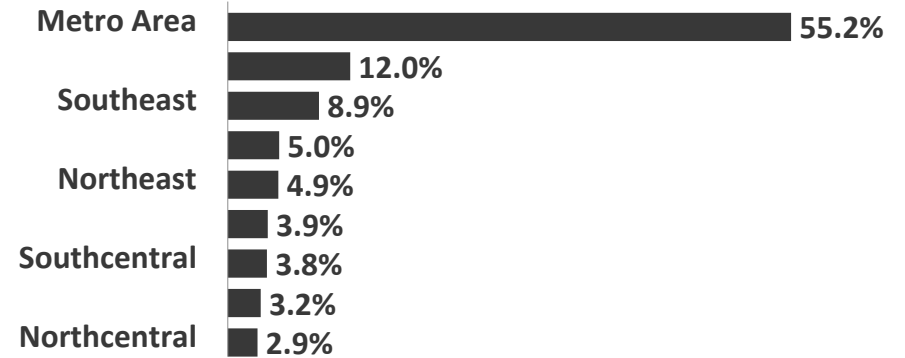
Stability, transparency, efficiency and effectiveness:

- 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.

Number of Public School Students in Average Daily Membership (ADM), Fiscal Year (FY) 2003-FY 2019

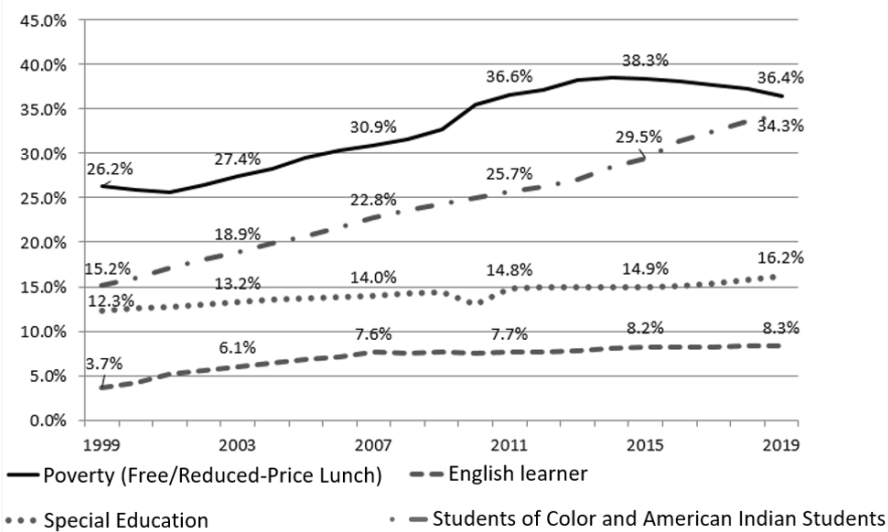


School Enrollment by Region FY 2018

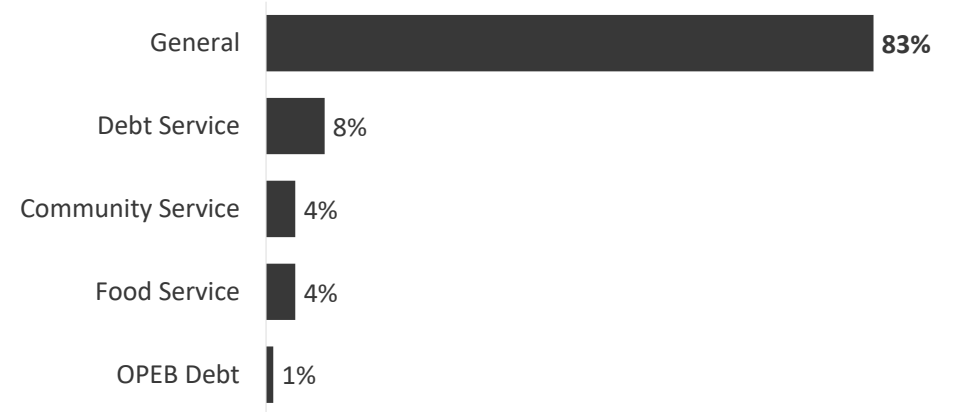


Source: HRD

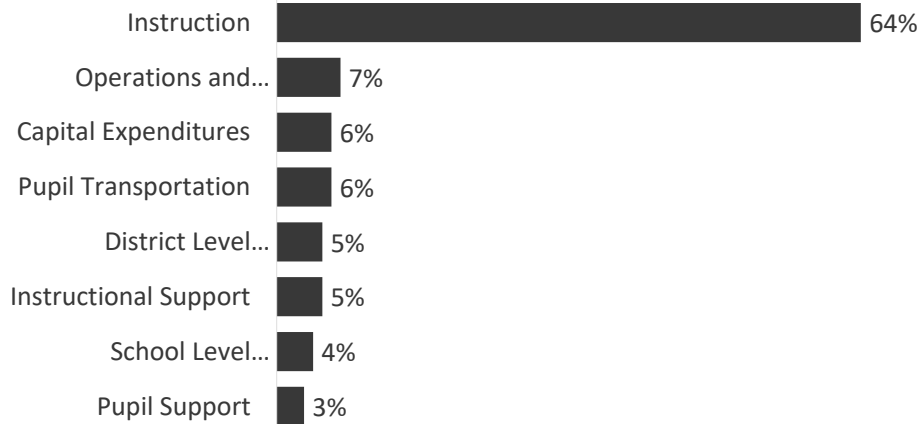
Special Populations as Percent of Total Public School Enrollment FY 2003 – FY 2019



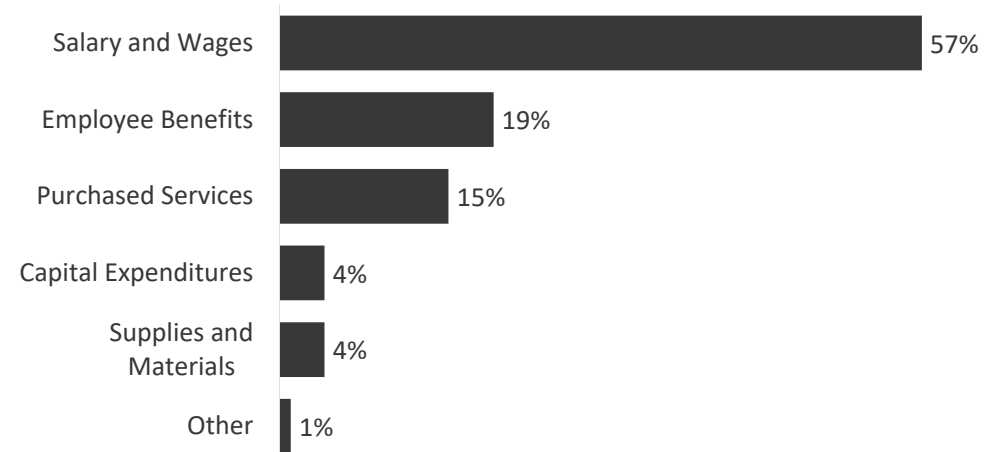
School District and Charter School Expenditures By Fund, FY 2018 (\$13.3 Billion)



School District and Charter School General Fund Expenditures By Program, FY 2018 (\$11.1 Billion)



School District and Charter School General Fund Expenditures By Object, FY 2018 (\$11.1 Billion)



How Minnesota School Finance Works, in a Nutshell

Funding is based mainly on the number of students served

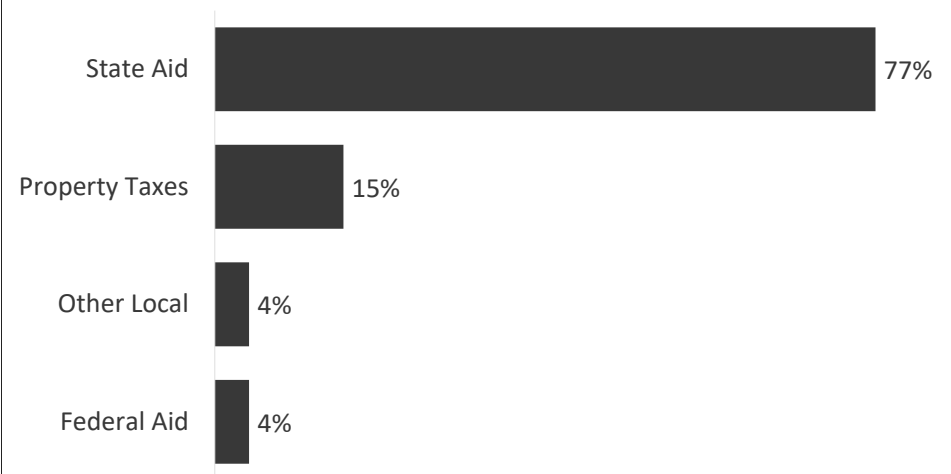
- Several different student counts are used for funding, including October 1 enrollment, average daily membership for the school year, and average daily membership weighted by grade level.
- Each school district and charter school's funding per student is different depending on student characteristics and other factors, such as special education costs.

State statutes set the funding levels and the mix of state aid and local property tax levies

- Most school property tax levies are "equalized" by the state to mitigate the effects of variations in property tax base per student among districts – state equalization aid covers a larger share of the revenue in districts with low property tax base per student than in districts with higher property tax base per student.

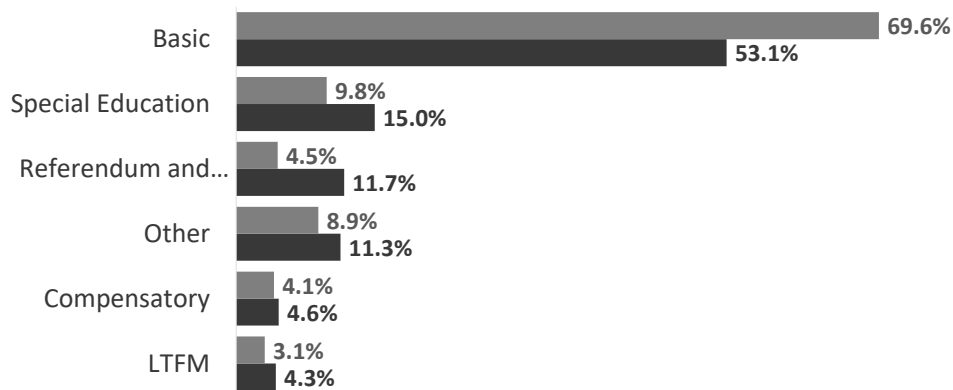
State statutes allow additional revenues to be raised through voter approval in a referendum election

School District and Charter School General Fund Revenue by Source, FY 2018 (\$ 11.2 Billion)



School District and Charter School General Fund Revenue From State Aid and Levy

FY 2003 Revenue vs. FY 2021 Revenue



Minnesota's School Finance System Allocation Mechanisms

1) Basic General Education Revenue

- Uniform level of general-purpose funding for all public school students.

2) Referendum and Local Optional Revenue

- Additional general-purpose funding for locally-defined purposes, funded with additional local tax effort, with state equalization for low tax base districts.

3) Categorical Revenue

- Additional funding for specific state-defined purposes, including added costs related to certain student and district characteristics, and to support state priorities.

Basic General Education Revenue

• Basic Revenue = Formula Allowance x Adjusted Pupil Units

- The formula allowance is set in statute at \$6,188 for FY 2018, \$6,312 for FY 2019, \$6,438 for FY 2020 and \$6,567 for FY 2021
- Adjusted Pupil Units = Adjusted ADM x Grade Level Weight
 - Adjusted ADM is the average number of students enrolled throughout the school year, including district residents and nonresident open enrolled students and excluding district residents enrolled elsewhere.
 - Weights = 1.0 for Prekindergarten (PreK)-Grade 6 and 1.2 for Grades 7-12

Basic General Education Revenue (continued)

- Basic Revenue is “unrestricted” – it may be used for any school purpose.
- Basic Revenue is currently funded entirely with state aid.
- From the 1950s through FY 2002, Basic Revenue was funded with a mix of state aid and a uniform local property tax levy. All school districts levied a uniform property tax rate against the district's Adjusted Net Tax Capacity (ANTC), and the state aid was the difference between the basic revenue and the amount generated by the uniform levy.
- By far the largest category of school revenue at \$5.8 billion for FY 2018.

Referendum and Local Optional Revenue

- Additional general-purpose funding for locally-defined purposes, funded with additional local tax effort, with state equalization for low tax base districts
- Referendum revenue requires voter approval; Local Optional Revenue (LOR) is approved by school board resolution
- Referendum authority is limited to 10 years; a referendum election is required to renew an expiring referendum
- Referendum revenue per student is capped. Districts qualifying for sparsity revenue are exempt from the cap. The cap for FY 2018 was \$1,934.
- The maximum LOR per student for FY 2018 was \$424.
- \$1.2 billion in fiscal year 2018

Categorical Revenue

- Categorical revenue provides resources for specific state-defined purposes, including added costs related to certain student and district characteristics, and to support state priorities.
- Categorical revenue may be “restricted” (set aside for purposes specified in statute) or “unrestricted”. Unrestricted categorical revenues provide variable levels of funding by district to recognize cost differentials, promote state priorities, or reward district performance, but district use of the revenues is not restricted.
- Some categorical revenues are included in the general education revenue program and some are stand-alone programs with separate appropriations.
- Categorical revenue may be funded with state aid, a mix of state aid and property tax levies, or entirely with local property tax levies.

Categorical Revenues Included in General Education Revenue Program, FY 2018

Revenue Category	\$ Millions	Restricted?	Funding Source
Compensatory	560	Yes	State Aid
Operating Capital	213	Yes	Equalized Levy
Equity	114	No	Equalized Levy
Transportation Sparsity	69	No	State Aid
Extended Time	58	Yes	State Aid
English Learner	55	Yes	State Aid
Transition	30	No	State Aid
Sparsity	28	No	State Aid
Small Schools	16	No	State Aid
Gifted and Talented	12	Yes	State Aid
Declining Pupil	10	No	State Aid
Pension Adjustment	7	No	State Aid

Other Major General Fund Categorical Revenues, FY 2018

Revenue Category	\$ Millions	Restricted?	Funding Source
Special Education	1,389	Yes	State Aid
Long-Term Facilities Maintenance (LTFM)	400	Yes	Equalized (Eq.) Levy
Q Comp	125	Yes	State Aid + Eq. Levy
Achievement and Integration	96	Yes	70% Aid, 30% Levy
Building/Land Leases	77	Yes	Unequalized Levy
Charter School Lease	74	Yes	State Aid
Literacy Incentive	46	No	State Aid
Safe Schools	31	Yes	Unequalized Levy
Career Technical Education (CTE)	29	Yes	Equalized Levy
Indian Education	9	Yes	State Aid

Special Education Aid

State special education aid funds a portion of the non-federal cost of:

- providing special instruction and services for children with a disability
- providing Alternative Delivery of Specialized Instructional Services (ADSIS) in regular education classrooms for students who need additional academic or behavioral support to succeed in the general education environment, and who may eventually qualify for special education instruction or related services if these intervention services were unavailable.

For FY 2018, state special education aid covered approximately 61 percent of the non-federal cost of these services.

School Property Tax Levies

Levy limits for local school districts are governed by formulas specified in state law. Local school boards are authorized to certify most school property tax levies without voter approval. Voter approval is required to raise additional revenues through an operating referendum, bond referendum, or capital projects referendum.

Most school levies are spread based on **Adjusted Net Tax Capacity (ANTC)**

- All taxable property pays a share
- Class rates are used for different use classes: Agricultural land has lower class rates than residential homesteads, and commercial and industrial property has higher class rates than residential homesteads

Operating referendum and local optional levies are spread on **Referendum Market Value (RMV)**

- Agricultural land and seasonal recreational cabin property are exempt
- No class rates are used

Variation Among Districts in Tax Base per Student

Referendum Market Value (RMV) per Resident Pupil Unit

State Average	553,126
95th Percentile	927,520
5th Percentile	296,736
Ratio of 95 th to 5 th Percentile	3.13

Adjusted Net Tax Capacity (ANTC) per Adjusted Pupil Unit

State Average	8,574
95th Percentile	15,031
5th Percentile	4,052
Ratio of 95 th to 5 th Percentile	3.71

State Support for School Property Tax Levies

The state provides two types of support to reduce school property tax burdens:

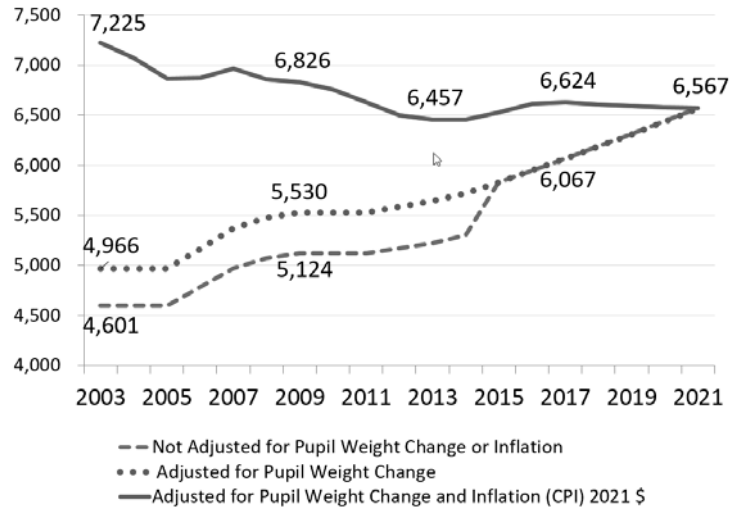
1) Levy Equalization

- A portion of the levy is covered with state aid for school districts with tax base per student below an “Equalizing Factor” defined in statute
- The lower the district’s tax base per student, the higher the state share of the levy revenue
- Funded in the E-12 Education Bill

2) Property Tax Credits

- Provide targeted tax relief for certain types of taxpayers (e.g., school building bond agricultural credit pays 40 percent of the school debt service levy on agricultural land)
- Funded in the Tax Bill

General Education Formula Adjusted for Pupil Weight Change and Inflation (CPI) 2019 End of Session

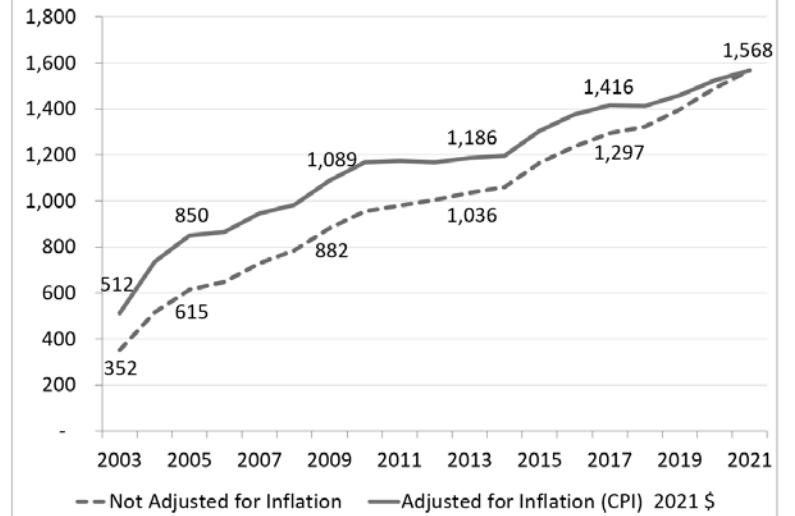


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Referendum and Local Optional Revenue per ADM 2019 End of Session

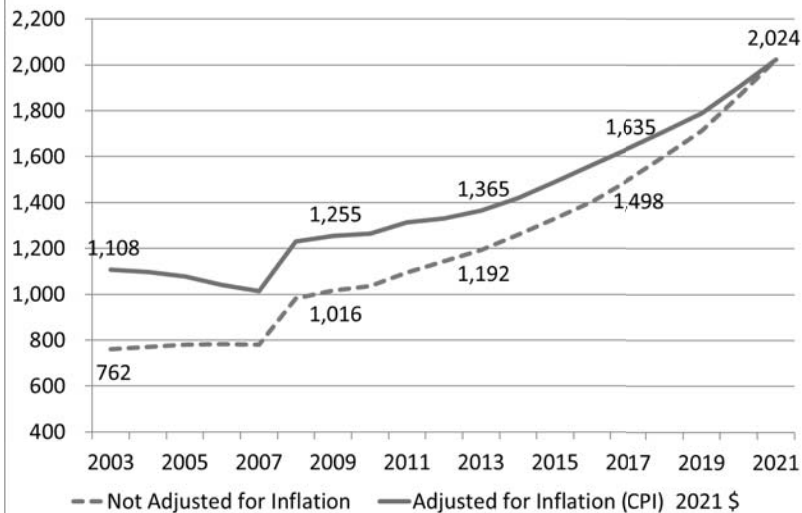


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State Special Education Aid per Student (ADM) 2019 End of Legislative Session

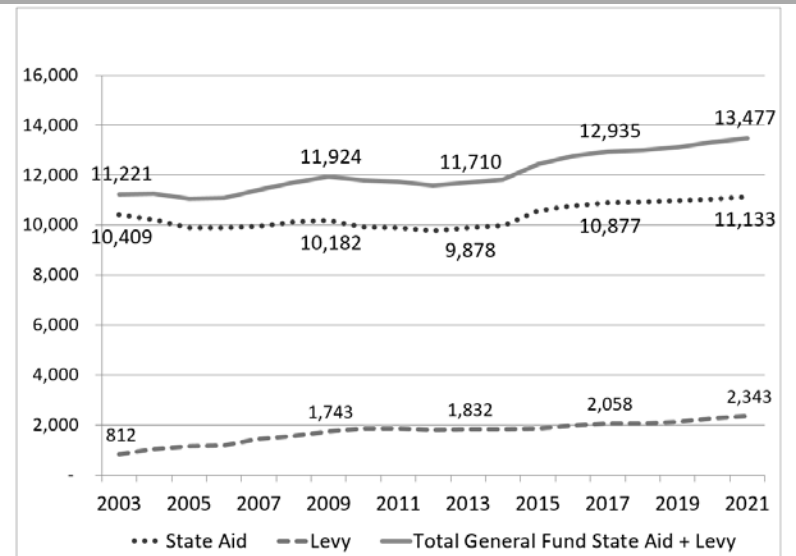


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Inflation-Adjusted General Fund Revenue per Student by Source 2019 End of Legislative Session

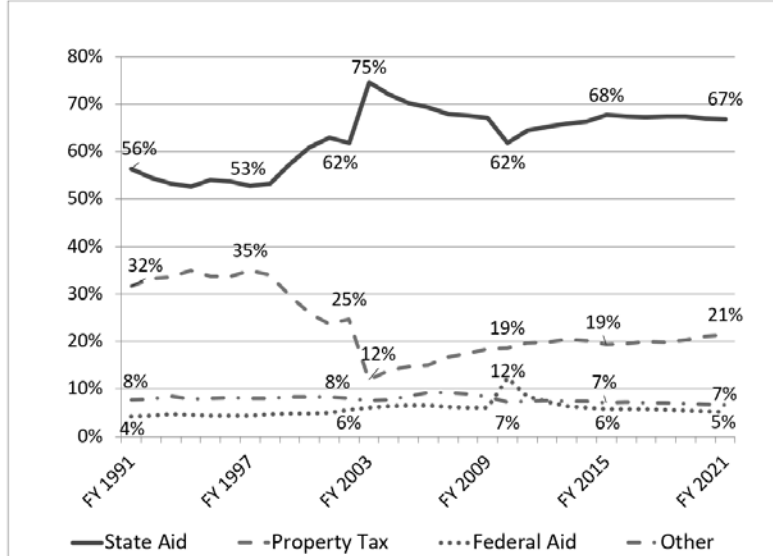


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E-12 Education Revenue by Source All Funds – 2019 End of Session

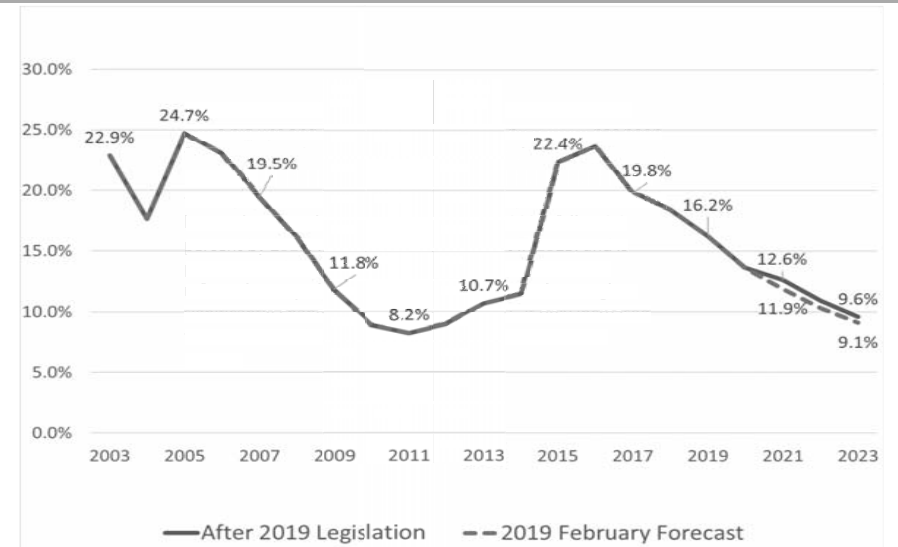


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State Share of Referendum + Local Optional Revenue End of 2019 Legislative Session: FY 2003-FY 2023

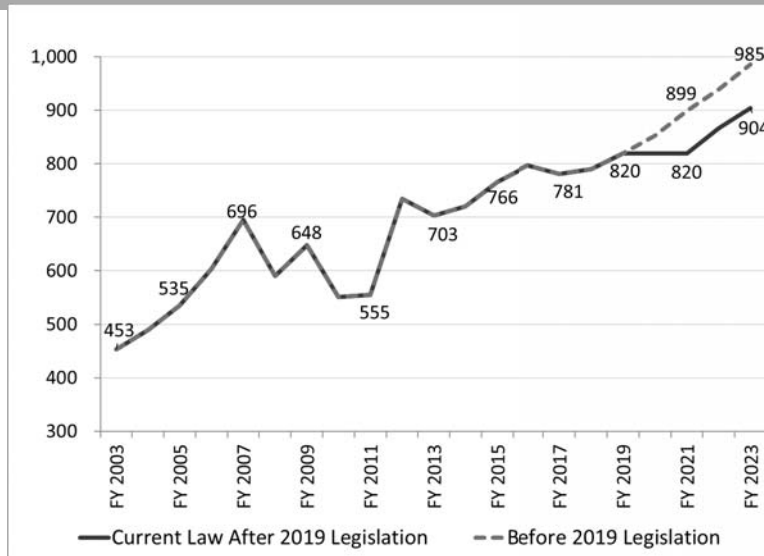


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Special Education Cross Subsidy per ADM Current Dollars – 2019 End of Session

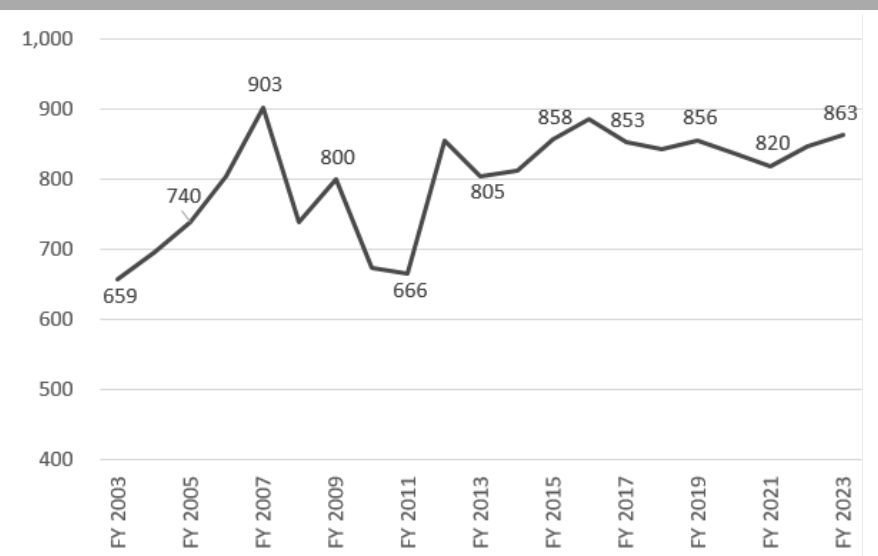


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Special Education Cross Subsidy per ADM Adjusted for Inflation using CPI (2021 Dollars) – 2019 End of Session



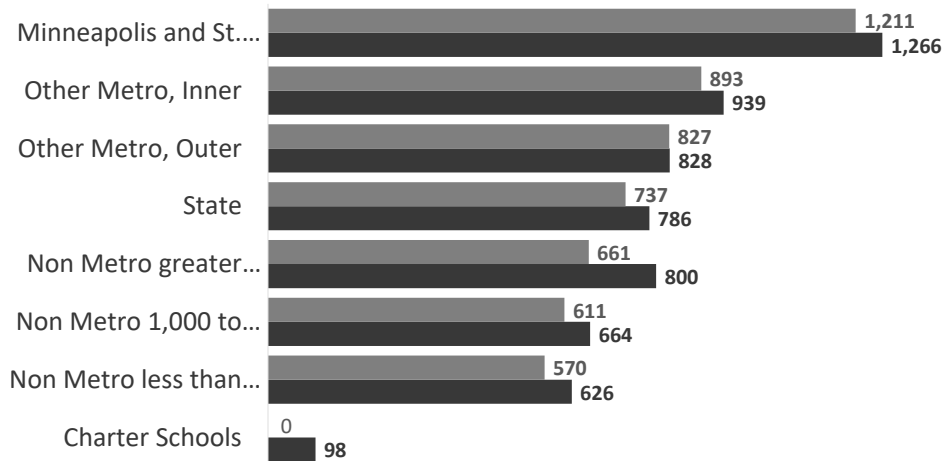
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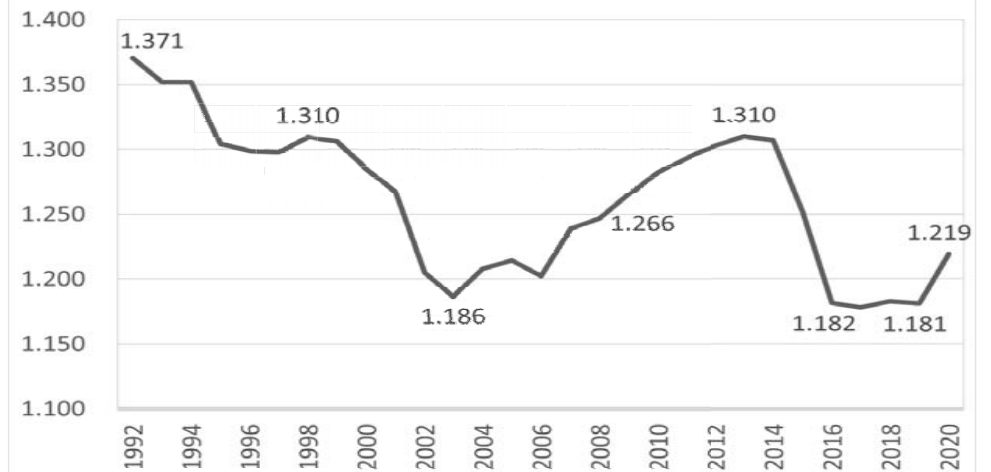
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Average Special Education Cross-Subsidy Per WADM by District Type

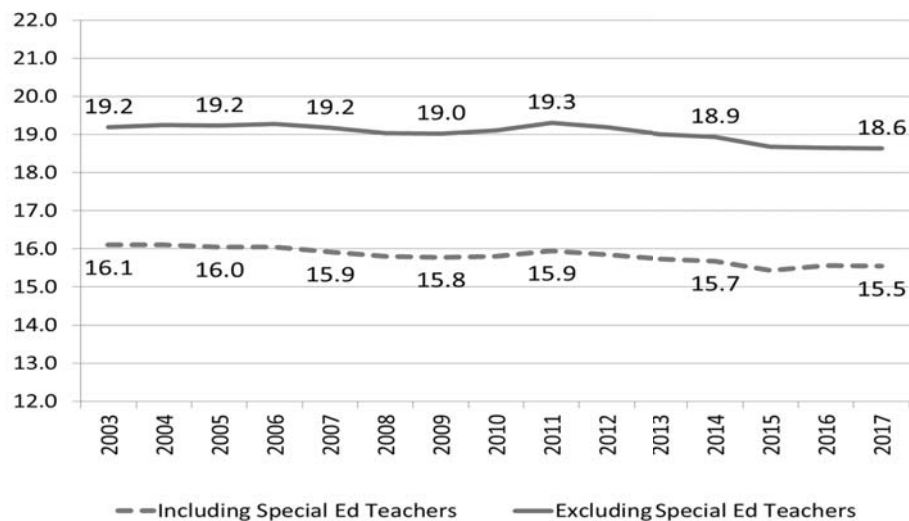
FY 2014 vs. FY 2017



Disparity in Unrestricted General Revenue per Student 95th to 5th Percentile Ratio, November 2018 Forecast

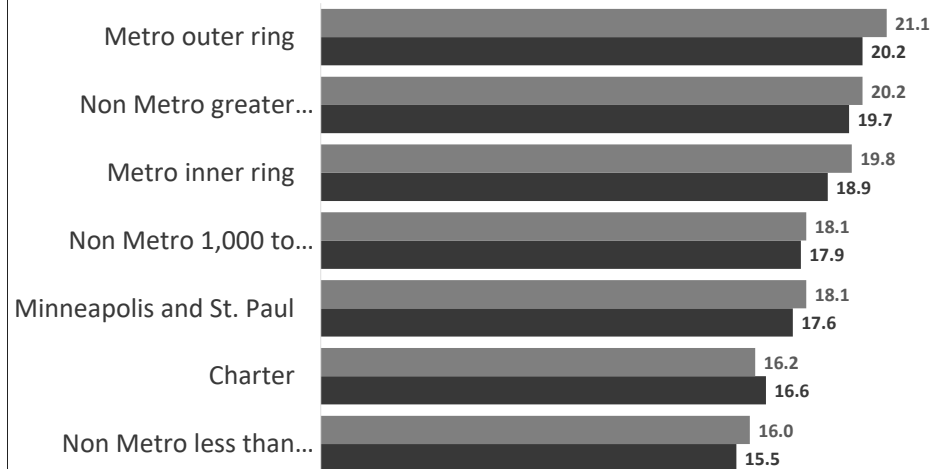


Pupil-Teacher Ratios FY 2003-2017

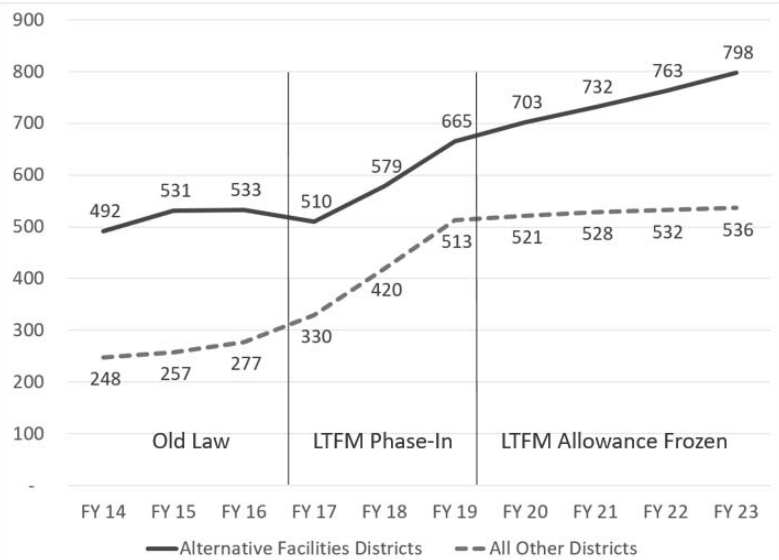


Pupil-Teacher Ratios Excluding Special Ed Teachers By Strata

FY 2003 vs. FY 2017



Long-Term Facilities Maintenance Revenue(LTFM)/ADM Alternative Facilities Districts versus All Other Districts February 2019 Forecast

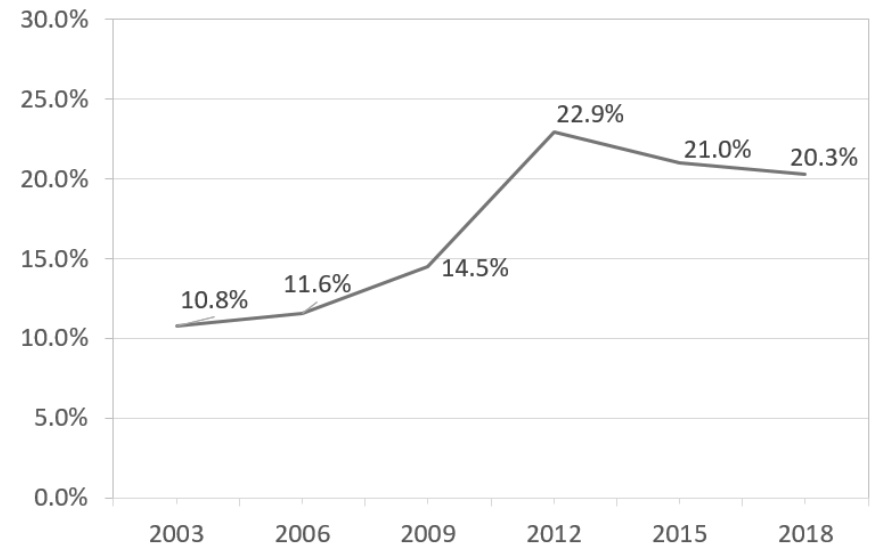


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Unreserved General Fund Balance – School Districts And Charter Schools Percent of Expenditures

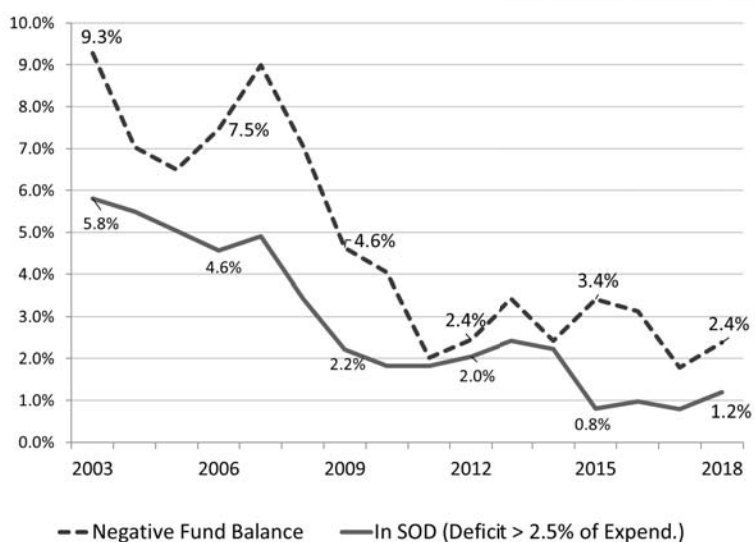


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Percent of School Districts And Charter Schools in Statutory Operating Debt (SOD) or With Negative General Fund Balance



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General Education Revenue Recap of Current Status

- The inflation-adjusted formula allowance decreased by \$658, or 9.1 percent, between FY 2003 and FY 2021; from \$7,225 to \$6,567 in 2021 dollars.
- School districts have offset the reduction in the inflation-adjusted formula allowance with referendum and local optional revenue (LOR), some more successfully than others.
- Reliance on referendum and LOR to fund basic education costs:
 - Creates inequities for students and taxpayers that would not exist if the formula allowance had been increased by enough to cover inflation.
 - Makes the school finance system much more complicated.
- The state share of referendum and LOR has declined steadily since 2016.

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Special Education Revenue Recap of Current Status

- The inflation-adjusted special education cross-subsidy per ADM increased by \$197, or 30 percent, between FY 2003 and FY 2019, from \$659 to \$856 in 2021 dollars.
- The special education funding increase and reform enacted in 2019 will reduce the state average inflation-adjusted cross-subsidy per ADM by \$36 to \$820 in FY 2021, but under current law, the improvement will be short lived.
- Without further improvement in the special education formula, the state average inflation-adjusted cross-subsidy per ADM will grow to \$863 by FY 2023.
- Reforms enacted in 2019 will significantly reduce inequities going forward by eliminating the cap, adjusting the hold harmless to reflect current data, reducing tuition billing rates, and targeting new funding to the districts with the highest cross-subsidies.

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Thank you!

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