August 24, 2011

TO: Members

FROM: Brad Lundell, SEE Executive Director

RE: Critique of "Funding Education for the Future"

This memorandum is my initial critique of the report issued by the Minnesota Department of Education (MDE) entitled "Funding Education for the Future." This report is the result of work performed by a task force convened by Minnesota Commissioner of Education Brenda Cassellius at the direction of Governor Mark Dayton. The task force held seven meetings beginning in March, 2011, and ending in May, 2011. Membership of the task force is listed in Appendix A of the "Funding Education for the Future" document (enclosed).

In her Executive Summary of the report, Commissioner Cassellius asserts that the work of the task force "clearly shows there is a better way to fund Minnesota schools for the 21st century by:

- Improving the adequacy, equity, and stability of pre K-12 education funding;
- Simplifying and streamlining education funding;
- Preserving local control;
- Closing achievement gaps; and
- Promoting high achievement for all students."

Much of the plan forwarded by the task force does improve Minnesota's education funding system by making strong recommendations that would bring greater adequacy and equity to the system as a whole. The question for this committee is "Do these changes change the existing funding system to the extent that questions of adequacy and equity become moot?" Further, would these changes, if enacted, create revenue and tax effort distributions that preclude litigation from being a viable strategy?

The centerpiece of the proposed plan as it relates to the current education funding formula is the recreation of the general education levy through the roll-in of $400 per pupil in current referendum revenue (districts with less than $400 per pupil would see an increase in revenue while districts with $400 per pupil or more would not) and the roll-in of the levy portion of a number of smaller categorical programs (equity revenue, transition revenue, training and experience revenue, safe schools revenue). These actions would create a single levy that would be fully equalized, evening out growing property tax disparities that are plaguing low-property wealth school districts. Reestablishing the general education levy—especially with the elimination of several unequalized levies—does provide considerable property relief for low property wealth school districts.

In addition to the creation of a new general education levy through the roll-in of a portion of existing referendum levies and smaller levy programs, $290 million in state aid is added to the general education program to bring the basic formula amount to $6,290/PU, which by MDE calculations would bring the basic formula amount to a level that would match the amount needed to reflect the basic formula amount plus inflation from the 2002-2003 school year.

Not discounting the hard work of the task force, the immediate question that comes to mind is whether or not this amount reflects the true cost of educating a student in today's world. A number of prior studies called for increases much larger than the approximately $290 million in new money contained in this report. The relevant question is not whether the basic formula amount matches the FY 2003 amount plus inflation, but whether or not it is enough to meet the educational needs of students throughout the state. Further research and comparison is necessary to fully answer this question, but there is no doubt that this is an open question and not one for which a ready answer exists.

The task force report also calls for the creation of a location equity adjustment that would further reduce the referendum levy for districts located in the seven-county metropolitan area or considered a regional center. This portion of revenue would not go onto the general education revenue basic amount, but instead would be a stand-alone aid levy program that would equal $400 per pupil for metropolitan area districts and $200 per pupil for regional centers (those non-metropolitan districts with enrollments of more than 2,000 students in average daily membership). The program would be equalized at the current first tier referendum equalizing factor of $476,000 per pupil unit.

While this approach to the issue of price pressures due to location is the most sound in that it looks at the portion of current funding that is accommodating these costs differences—the locally-approved referendum—it does not recognize the full need of low-property wealth metropolitan school and regional districts with levels of referendum revenue that do not reach $800 per pupil unit. Given that all districts in the state will be subject to a $400 per pupil unit referendum roll-in, that leaves less than $400 per pupil (or $200 per pupil in regional center districts) in remaining referendum revenue for a number of metropolitan and regional center school districts to realize the full revenue "gain" that would result from the application of the location equity index. For instance, Centennial would have its referendum of $689 per pupil reduced to $389 per pupil through the $400 per pupil roll-in. Because they only have $389 left, their referendum would be completely wiped clean by the creation of the location equity categorical, but given the constraints under which the task force operated in terms of available state revenue, they would not be able to glean the additional $11 per pupil that should result from a complete recognition of current levels of revenue. While it is easy to appreciate the current revenue constraints, it simply does not make sense to fully recognize the cost pressures that exist throughout the metropolitan area and in regional centers.

The further problem with the location equity revenue category is that it is difficult to draw the boundaries to determine what districts should or should not receive some measure of location equity revenue. Districts like Cannon Falls (in Goodhue County) and Rockford (in Wright County) border the metropolitan area and face cost pressures similar to those in Belle Plaine (Scott County) and Central (Carver County) that are in the metropolitan area.

The proposal also calls for a reconfiguration and refocusing of the programs that aim to increase the achievement levels in districts with high concentrations of students in poverty and students who do not come from homes where English is the primary language. While there is considerable discussion in the report of refocusing these revenue streams, there are no changes in how the revenue is calculated. Making an assumption of this level is open to question. There is no doubt that districts with high levels of students in poverty and from non-English speaking households face challenges beyond that of offering basic education services, but there is little, if any, research that shows the current calculation of per pupil revenue as it relates to the categorical revenue programs that aim to remedy these challenges are correct. Further research is needed in this area.

For SEE, there are larger questions relating to funding differences that result from differences in property wealth that need to be addressed and the task force report is largely silent on this set of questions. While the report clearly, and correctly, points out that growing reliance on the referendum levy is causing equity issues, it does not go beyond that in describing the extent of the equity issue as a whole. Nor does the report call for an increase in the referendum equalization factor or set a static referendum cap. While the report calls for a reduction in the referendum cap to reflect the roll-in of a portion of the referendum levy, it does not go beyond that to account for the reduction of the referendum levy for school districts in the metropolitan area and regional centers due to the location equity index portion of the task force recommendations. Leaving the referendum cap discussion totally open while not increasing equalizing factors is simply an invitation to a continuing problem with equity based on a district's property wealth.

The analogy I often use to describe the possible effects of reform is that of a photograph and a movie. As in the case of Governor Ventura's "Big Plan" that was adopted in 2001, the initial effects of this task force report would narrow the gap between high and low property wealth districts considerably. The problem is that in moving forward, high property wealth districts with available referendum "space" would, as they have in the past, use it. Low property wealth districts, without increases in the referendum equalizing factor, would likely have more difficulty in using the referendum and would, as we have witnessed throughout the past decade, fall behind. While it is true that the referendum roll-in could (perhaps would) reduce reliance on the referendum, there will always be a referendum levy and that formula component must be made as fair as possible. The task force's decision to "punt" on this issue is troubling and it must be SEE's top priority to make certain this issue remains front-and-center in the discussion of this and other formula reforms.

In closing, it is my opinion that this report, while laudable, does nothing to blunt efforts aimed at pursuing litigation. The task force clearly calls for a needed stream-lining of the education system and does recognize that the general education formula basic amount has fallen well behind inflation and, as a result, has caused increasing reliance on the referendum levy, which is an unfair and incomplete method by which school districts can meet their revenue needs. Still, there are glaring questions left unanswered by the task force report and if palatable answers are not forthcoming without prodding, SEE should continue to consider every tool at its disposal. I would urge the organization to continue to work with MDE to remedy the shortcomings (or unanswered questions) found in the report while continuing to discuss legislative and non-legislative strategies.

I will be preparing a more in-depth analysis of the task force report in its entirety; looking at each recommendation and determining how they would affect SEE districts. As I have often said throughout the task force proceedings, this has been a solid effort performed under a tight timeline and very tight constraints in terms of resources available to the group in the design of the proposal. With another $500 million in revenue to use for both bolstering school district expenditure levels and evening out property tax effort disparities, this effort could have yielded an almost air-tight reform package. Without that additional revenue, the resulting plan calls for a number of slippery policy decisions that will be difficult to navigate.