

EDUCATION FINANCE CHANGES

2014 Legislative Session

Terri Yetter
Division of School Finance

May 22, 2014

Agenda

- **2014 Education Finance Legislation Overview:**
 - Supplemental Budget Bill (Chapter 312)
 - Bonding Bill (Chapter 294)
 - Tax Bill #1 (Chapter 150)
- **Implementing Local Optional Revenue Changes: Key Considerations and Resources at MDE**
- **Impact on School Funding Trends: Statewide and by Strata**
- **Impact on Individual Districts: Resources on MDE Web Site**

Supplemental Budget Bill:

Governor, House & Senate Spending: FY 14 – 15 Biennium

\$ in Thousands	Governor	House	Senate
Formula Increase - 1%	-	54,460	-
ELL to 6 Years	-	5,400	4,076
Early Childhood Literacy/Reading Corps	-	500	2,000
School Readiness	-	2,000	3,367
ECFE Formula	-	-	8,904
Early Learning Scholarships	-	-	8,800
Northside Achievement Zone	-	1,132	600
St. Paul Promise Neighborhood	-	1,132	600
Telecommunications Access	-	5,000	-
Teacher Evaluation	-	-	9,000
Concurrent Enrollment	-	1,897	-
PSEO Weight Correction	(2,754)	(2,754)	(2,754)
School Lunch	3,519	3,519	3,519
Recovery Programs	500	500	-
Other	300	2,214	3,189
Total	1,565	75,000	41,301

Supplemental Budget Bill

Governor, House & Senate Spending: FY 16 – 17 Biennium

\$ in Thousands	Governor	House	Senate
Formula Increase - 1%	-	122,120	-
ELL to 6 Years	-	12,000	9,058
Early Childhood Literacy/Reading Corps	-	1,000	-
School Readiness	-	4,000	7,482
ECFE Formula	-	-	19,505
Early Learning Scholarships	-	-	13,300
Northside Achievement Zone	-	2,264	-
St. Paul Promise Neighborhood	-	2,264	-
Telecommunications Access	-	10,000	-
Teacher Evaluation	-	-	1,000
Concurrent Enrollment	-	-	-
PSEO Weight Correction	(5,564)	(5,564)	(5,564)
School Lunch	7,252	7,252	7,252
Recovery Programs	1,000	1,000	-
Other	-	12,858	13,989
Total	3,735	170,000	66,622

Supplemental Budget Bill
SPENDING TARGETS
(State Aid Appropriations @ 90 / 10)

\$ millions	House	Senate	Final
FY 14 - FY 15 Biennium	\$75.0	\$41.3	\$54.0
FY 16 – FY 17 Biennium	\$170.0	\$66.6	\$104.0

2014 Education Finance Legislation Overview

State Appropriations @ 90-10 Pay Schedule

\$ in Thousands			
Supplemental Budget Bill / Education Articles Changes:			
	FY 2015	FY 2016	FY 2017
General Education Formula (\$25)	23,400	26,260	26,520
English Learner Revenue	4,900	5,444	5,444
Teacher Evaluation	9,000	1,000	-
ECFE (linked to formula allowance)	4,650	5,167	5,167
Early Learning Scholarships	4,650	4,884	4,884
School Readiness	1,800	2,000	2,000
School Lunch	3,519	3,626	3,626
School Breakfast	569	642	682
Natural Disaster Debt Service Equal.			2,058
Debt Service Equalization		1,577	4,562
PSEO Formula Correction	(2,754)	(2,765)	(2,799)
Other	4,285	1,880	2,141
Subtotal, Supplemental Budget Bill	54,019	49,715	54,285
Tax Bill: Local Optional Revenue		19,049	20,851
Grand Total	54,019	68,764	75,136

2014 Education Finance Legislation Overview

School Property Tax Levies

\$ in Thousands		
Supplemental Budget Bill / Education Articles Changes:		
	FY 2016 Pay 15	FY 2017 Pay 16
Safe Schools, Intermediates	1,107	1,110
Building Lease	470	495
Satellite Transp Hub (ISD 196)	-	600
Debt Service Equalization	(1,577)	(5,069)
Natural Disaster Debt Service	-	2,864
Other	-	-
Subtotal, Supplemental Budget Bill	-	-
Tax Bill: Local Optional Revenue	23,323	22,775
Grand Total	23,323	22,775

Supplemental Budget Bill, Article 15

GENERAL EDUCATION REVENUE

Formula Allowance

- **\$25 increase to \$5,831, beginning in FY 2015**
 - (0.4%, making the total increase over FY 2014 1.9%)
- This increases funding for other revenues linked to the formula allowance (e.g., compensatory, sparsity, transportation sparsity, nonpublic transportation, nonpublic pupil, Indian tribal contract, and, beginning in FY 2015, ECFE)

Supplemental Budget Bill, Article 15

GENERAL EDUCATION REVENUE

English Learner (EL) Funding, FY 2015 and Later

- Eligibility extended from 5 to 6 years
- Students with < 6 years of ADM in Minnesota whose test results indicate proficiency in English will continue to be eligible for funding up to 6 year limit if classroom teacher determines that student is not proficient
- (Regular EL formula rate increase from \$704 to \$726 proposed by House NOT adopted)

Supplemental Budget Bill, Article 15

GENERAL EDUCATION REVENUE

Equity Revenue

- **No change in equity revenue**
- (House and Senate proposals to increase equity revenue for certain districts on the edge of the metro area NOT adopted)

Supplemental Budget Bill, Article 15

POST SECONDARY ENROLLMENT OPTIONS (PSEO)

- Formula for payments to colleges under PSEO corrected to use 1.2 weighting rather than 1.3, to conform with secondary pupil unit weight, beginning in FY 2015.
- Creates an exception to the prohibition on colleges enrolling students in remedial or developmental courses that are not college level for students eligible for the graduation incentives program who enroll full time in a middle or early college program specifically designed to allow the student to earn dual high school and college credit. These students receive developmental college credit for the remedial or developmental courses.

Supplemental Budget Bill, Article 15

SAFE SCHOOLS LEVY

- Allowance for intermediate districts increased from \$10 to \$15, beginning FY 2016 (Pay 2015 levy) .
- No change for school districts

Supplemental Budget Bill, Article 16

TEACHER DEVELOPMENT AND EVALUATION

- **Teacher Development and Evaluation Revenue**
 - FY 2015 only
 - Applies to school districts, intermediate districts and charter schools not in Q Comp
 - Aid = \$302 x number of FTE teachers employed on October 1 of prior school year (prorated as needed to not exceed \$10 Million total)
 - “Teacher” defined broadly to include all staff required to be licensed by MDE, including administrators

Supplemental Budget Bill, Article 16

ACHIEVEMENT AND INTEGRATION REVENUE

Technical Amendments

- Clarifies that initial revenue is the lesser of formula amount or 100.3 percent of expenditures under approved budget, excluding expenditures used to generate incentive revenue
 - (using 100.3 percent allows the 0.3% transferred to MDE to be taken off the top without having the district include the 0.3 percent in its budget.)
- Clarifies that the incentive revenue is the lesser of formula amount or approved expenditures under approved incentive revenue budget.

Supplemental Budget Bill, Article 18

REVIEW AND COMMENT

Adopts Facilities Working Group recommendations, including:

- Increases threshold from \$1.4 million to \$2 million
- Eliminate consultation requirement for smaller projects
- Exempts from review and comment:
 - facility additions, remodeling and maintenance projects funded only with general education revenue, health & safety revenue, alternative facilities revenue, deferred maintenance revenue, lease levies, or facilities bonding, and
 - technology purchases funded with capital projects referendum.
- Data required for R&C submissions is simplified

Supplemental Budget Bill, Article 18

FACILITIES COMMISSIONING

- Delinks facilities commissioning under MS 123B.72 for installation or retrofitting of heating, ventilation, and air conditioning systems from review and comment threshold.
- Sets the threshold for facilities commissioning at \$1.4 million (the old review and comment threshold)

Supplemental Budget Bill, Article 18

BUILDING LEASE LEVY

- Regular allowance maximum increased from \$162 to \$212 per APU (\$50 increase)
- Additional allowance for members of intermediate districts increased from \$46 to \$65 per APU
- Effective for taxes payable in 2015 for FY 2016
- (Final legislation does not include the one-time additional levy authority of \$50 per APU for FY 2015 that was in Senate bill).

Supplemental Budget Bill, Article 18

DEBT SERVICE EQUALIZATION

- **Natural Disaster Debt Service Equalization (New)**
 - Districts eligible if natural disaster caused >\$500,000 in damage and repair / replacement costs are not covered by FEMA or insurance (Moose Lake & Rushford-Peterson)
 - Portion of debt levy exceeding 10% if ANTC equalized at 300% of state average ANTC / PU
 - effective FY 2017 (Pay 2016 levy)
- **Regular Debt Service Equalizing Factors Adjusted**
 - From \$3,550 to \$3,400 for FY 16 and to \$4,430 for FY 17 and later for tier 1
 - From \$7,900 to \$8,000 for tier 2 for FY 16 and later
 - Intent is to offset levy increases in other portions of bill to hit \$0 target for overall property tax levy impact of bill

Supplemental Budget Bill, Article 19

NUTRITION

- **School Lunch Aid**
 - Increased from 12.5 cents to 52.5 cents per lunch for reduced-price lunch students, making lunches free for these students
- **School Breakfast Aid**
 - Increased from 55 cents to \$1.30 for kindergarten students, and makes school breakfasts free for all kindergarten students.

Supplemental Budget Bill, Article 20

EARLY CHILDHOOD FAMILY EDUCATION (ECFE)

- **Increases ECFE Allowance and Links it to the General Education Formula**
 - For FY 2015 and later, the ECFE allowance equals 2.3 percent of the general education formula allowance.
 - For FY 2015, this is an increase from \$120 to \$134.11 (an 11.8 percent increase)
- **Adds new program requirements:**
 - A community needs assessment that identifies new and underserved populations, and identifies child and family risk factors;
 - Tailoring of programming and services to the needs of families and parents prioritized in the community needs assessment, with a priority on programming and services for families and parents with children with the most risk factors birth to age three; and
 - Submission of data to MDE in annual report that demonstrates the program response to the community needs assessment.

Supplemental Budget Bill, Article 20

OTHER EARLY CHILDHOOD EDUCATION PROGRAMS

- **School Readiness**
 - Increases state total aid entitlements by \$2 million per year, beginning in FY 2015
- **Early Learning Scholarships**
 - Increases funding by \$4.65 million for FY 2015 and by \$4.884 million in later years.
 - Eliminates the \$5,000 limit on scholarships beginning in FY 2015 and directs the commissioner to establish a target for the average scholarship based on the results of a rate survey.
- **Parent-Child Home Program**
 - Increases appropriation for Fy 2015 from \$250,000 to \$350,000.

Bonding Bill

- **Red Lake Capital Loan** **\$5,491,000**
 - To design, construct, furnish, and equip a single kitchen and cafeteria to serve the high school and middle school.
- **Library Construction Grants** **\$2,000,000**
- **Minnesota State Academies** **\$11,354,000**
 - Includes \$10,654,000 for a new residence hall at the Academy for the Deaf and \$700,000 for asset preservation
- **Perpich Center for Arts Education** **\$2,000,000**

First 2014 Omnibus Tax Bill

Referendum and Location Equity Revenue Changes

Changes for FY 2016:

- Name change: “Location Equity” to “Local Optional” Revenue.
- **All** districts eligible for \$424 / APU of local optional revenue:
 - Either \$212 or \$424 increase for non-metro districts, with offset to voter approved / converted referendum allowances
- Non-metro districts with Tier 3 referendum revenue (referendum allowance > \$760) and RMV / RPU < \$510,000 will not receive a net revenue increase, but will have a shift from levy to aid

First 2014 Omnibus Tax Bill

Referendum and Location Equity Revenue Changes

Changes for FY 2016 (continued):

- No longer need board resolution to opt out of local optional revenue.
 - To opt out, districts will need to under levy.
- Removes “new referendum election penalty” by changing the order for the Local Optional Revenue subtraction

First 2014 Omnibus Tax Bill

Referendum and Location Equity Revenue Changes

Steps in FY 2016 referendum allowance calculation:

1. FY 2015 converted allowance (pupil conversion + old alternative attendance adjust)
2. Add allowances from fall 2013 elections
3. Add inflation adjustments on above authorities
4. Subtract local optional allowance (lesser of \$424 or amount selected by district)
5. Initial allowance equals greater of \$0 or step 4 amount.
6. Subtract phase-outs (net after local optional revenue subtraction)
7. If balance <\$300, may add new authority up to \$300/APU total by board resolution
8. If board-approved <\$300, may convert up to \$300 from voter-approved to board-approved by board resolution
9. Add new authority from elections this fall 2014

First 2014 Omnibus Tax Bill

Referendum and Location Equity Revenue Changes

Example

Goodhue #253	Old Law	New Law w/o Board Action	New Law w/ Board Action
Initial Referendum	500	500	500
- Local Optional	0	424	424
= Net Referendum	500	76	76
Potential Increase	0	224	224
Board Resolution	0	0	224
Final Referendum	500	76	300
Combined Ref+Loc Opt	500	500	724

First 2014 Omnibus Tax Bill

Referendum and Location Equity Revenue Changes

New Local Optional Under-levy Provision

- Requirement for board resolution to opt out eliminated
- Now to opt out will need to under levy
- If under levy, MDE will adjust initial referendum authority accordingly (see slide 25, step 4). This may affect ability to add new board-approved authority.

Implementing Local Optional Revenue Changes: Key Considerations and Resources at MDE

Levy Information System modified to add local optional allowance:

5. Local Optional Allowance.



Amount up to \$424 per APU that the district plans to levy according to M.S. 126C.10, subd. 2e

424.00

- Allows districts to “opt out” and propose “MAX”
- Districts will submit this information electronically in August with other levy data. MDE will calculate levy limitations using amount requested by district.
- Revisions can be made along with other data changes during September.

Implementing Local Optional Revenue Changes: Key Considerations and Resources at MDE

Example Board Resolution for New Authority that allows MDE to adjust for final data:

2. Approval of New Authority. Pursuant to Minnesota Statutes, Section 126.17, subd. 9a, the Board hereby determines to authorize a new Board approved referendum authority in the amount of \$300 per adjusted pupil unit. **This new Board approved referendum authority shall be further adjusted based on final pupil unit data. It is the intention of the Board to create the maximum authority for which it is eligible, not to exceed \$300 per adjusted pupil unit...**

Implementing Local Optional Revenue Changes: Key Considerations and Resources at MDE

September 30, 2014

- Deadline to pass a board resolution to convert existing referendum authority from voter-approved to board-approved or to authorize new board-approved authority for taxes payable in 2015.
- Deadline to establish maximum local optional allowance for taxes payable in 2015.
 - Districts must finalize this allowance prior to proposed levy certification to ensure that final levy does not exceed proposed levy, aside from new elections or other commissioner-approved changes.

SCHOOL FUNDING TRENDS, FY 12 – FY 15

General Fund State Aids and Levies (Major Programs)

General Ed, Special Ed, Other Major Programs

By Strata, Current \$

Total Revenue / ADM - Current \$										
	FY 2012		FY 2013		FY 2014		FY 2015		FY 12 to FY 15	
	Amount	Amount	% Incr	Amount	% Incr	Amount	% Incr	Amount	% Incr	
TOTAL	9,897	10,155	2.6%	10,423	2.6%	10,991	5.4%	1,094	11.1%	
MPLS & ST PAUL	12,776	12,940	1.3%	13,178	1.8%	13,681	3.8%	905	7.1%	
SUBURBS	9,818	10,062	2.5%	10,327	2.6%	10,911	5.7%	1,093	11.1%	
NONMET >=2K	9,011	9,259	2.7%	9,488	2.5%	10,054	6.0%	1,043	11.6%	
NONMET 1K-2K	8,716	8,928	2.4%	9,139	2.4%	9,562	4.6%	846	9.7%	
NONMET < 1K	9,328	9,704	4.0%	9,940	2.4%	10,370	4.3%	1,042	11.2%	
CHARTER	10,549	10,724	1.7%	11,041	3.0%	11,347	2.8%	798	7.6%	

SCHOOL FUNDING TRENDS, FY 12 – FY 16

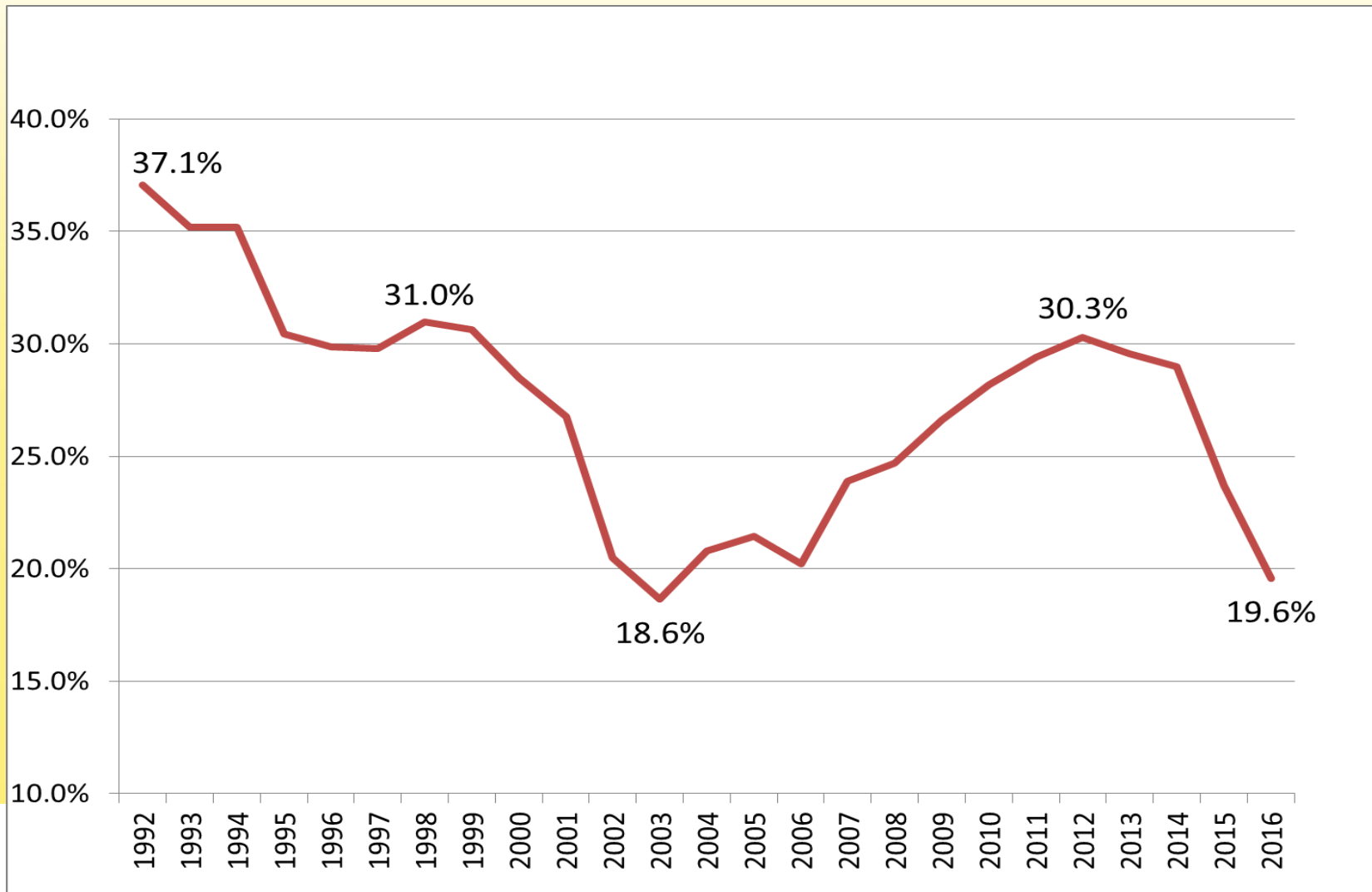
FY 12 to FY 15 State & Local Revenue Increase + FY 16 Local Optional Revenue Increase

General Ed, Special Ed, Other Major Programs By Strata, Current \$

Total Revenue / ADM - Current \$				FY 12 to FY 15	
	FY 12 to FY 15		FY 2016	Plus FY 16 Local Opt.	
	Amount	% Incr	Local Optional	Amount	% Incr
TOTAL	1,094	11.1%	23	1,117	11.3%
MPLS & ST PAUL	905	7.1%	-	905	7.1%
SUBURBS	1,093	11.1%	-	1,093	11.1%
NONMET >=2K	1,043	11.6%	19	1,062	11.8%
NONMET 1K-2K	846	9.7%	60	907	10.4%
NONMET < 1K	1,042	11.2%	98	1,140	12.2%
CHARTER	798	7.6%	2	800	7.6%

SCHOOL FUNDING TRENDS, 1992 - 2016

Gap Between 95th and 5th Percentiles of Basic + Referendum + Equity
+ Local Optional Revenue per Pupil Unit
(FY 16 Based on Maximum Allowances before New Elections and Phase-outs)



Impact on Individual Districts: Resources on MDE Web Site

- **What-if Spreadsheet** for FY 2015 under Data Center / Data Reports and Analytics / School Finance Spreadsheets / General Education / Interactive Projection models

and

- **Charter School What-if Spreadsheet** for FY 2015 under Data Center / Data Reports and Analytics / School Finance Spreadsheets / Charter Schools/ Interactive Projection models
 - Updated to reflect changes in general education funding for FY 2015, including increase in formula allowance, change in EL funding and change in small schools revenue for FY 2015.

Impact on Individual Districts: Resources on MDE Web Site

- **Revised FY 2015 Preliminary Revenue Projections – 2013 End of Session** -- under School Support / School Finance / Revenue Projections and Trends
 - Shows revenue changes by funding category resulting from 2014 legislation – old law versus new law.
- **13 Year Revenue Table** under Data Center / Data Reports and Analytics / School Finance Spreadsheets / Financial Trends / Revenue Trends
 - Updated to reflect changes in FY 2015 general education revenue and the one-time teacher evaluation revenue (listed on same line as Q Comp – see “Teacher” tab for preliminary calculations based on February forecast Q Comp status).

Impact on Individual Districts: Resources on MDE Web Site

Referendum Phase-out spreadsheet on MDE web site under **School Support / School Finance / General Education / Referendum** at [Referendum Phaseout Details Through Calendar Year 2013 Elections](#)

- List districts' referendum allowances per RMCPU as they existed after calendar year 2012 elections based on old law,
- List districts' referendum allowances APU as they exist under current law,
- List districts that require board action to take full advantage of the new provision that provides every district with \$424 per pupil unit of local option revenue, and
- Simulate the results of passing referendums in calendar year 2014 that are effective for fiscal year 2016.

Questions?

School Finance Changes:

Terri Yetter, Education Funding Supervisor
(651) 582-8868 or Terri.Yetter@state.mn.us

Referendum/Local Optional Revenue Changes:

Bob Porter, Education Finance Specialist
(651) 582-8851 or Bob.Porter@state.mn.us

Jon VanOeveren, Education Finance Specialist
(651) 582-8375 or Jon.VanOeveren@state.mn.us