School Facilities Financing Work Group

Summary of Report and Recommendations

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Schools for Equity in Education Meeting

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SCHOOL FACILITIES FINANCING WORK GROUP

- 2013 Omnibus E-12 Education Act required MDE to convene a working group to develop recommendations for reforming school facilities financing "to create adequate, equitable, and sustainable financing of public school facilities throughout the state."

- Membership required to include representatives of :
  - school superintendents (MASA)
  - business managers (MASBO)
  - school facilities directors (MASMS)
  - school boards (MSBA)

- February 1, 2014 deadline for report to legislature

SCHOOL FACILITIES FINANCING WORK GROUP

- 16 members were appointed to the Working Group, including three representing each of the groups named in the legislation and four additional members selected by the Commissioner.
- The group provided balanced representation for urban, suburban and rural districts throughout the state and charter schools, including districts that currently receive alternative facilities funding and districts that do not receive that funding.
- The Working Group had seven half-day meetings at MDE, beginning in August 2013 and ending in January 2014.

Principles for Facilities Funding Reform
Adopted by Working Group

1. Funding should be adequate, equitable and sustainable.
2. All districts should have access to comparable funding for comparable needs based on uniform procedures and eligibility criteria.
3. Local school districts should take the lead in determining facilities project needs, scope, and design.
4. Funding formulas and administrative procedures should be as simple as possible, so as to minimize administrative burdens / paperwork and maximize local control, while providing accountability.

Principles for Facilities Funding Reform (Continued)

5. Property tax levies for facilities should be equalized in a manner that minimizes variations in revenue per student for comparable tax effort regardless of variations in local tax base, and provides stability over time.

6. Special provisions should be made to ensure adequacy and equity for districts that have incurred facilities damage due to natural disasters.

7. Funding for charter schools should be comparable to funding for district schools.

8. Facilities funding should promote sound long-term planning and efficient use of resources.

Working Group Recommendations:
Long-Term Facilities Maintenance

Establish a **new long-term facilities maintenance revenue program** to replace the current alternative facilities, deferred maintenance and health & safety revenue programs, which provides adequate, equitable and sustainable long-term maintenance funding for all school districts statewide.

- Four-year phase-in, with gradual increase in funds available without an election for districts not currently included in alternative facilities program
- No loss of revenue or state aid for any districts

Long-Term Facilities Maintenance Revenue

Proposed Phase-In for Districts Not Currently Eligible for Alternative Facilities Funding

For FY 2017, maximum revenue equals the greater of:

- **$300** times the district's Adjusted Pupil Units (APU) times the lesser of one or the ratio of the district's average building age to 35 years or
- The amount the district would have qualified for under old law.

For FY 2018, maximum revenue equals the greater of:

- **$400** times the district's Adjusted Pupil Units (APU) times the lesser of one or the ratio of the district's average building age to 35 years or
- The amount the district would have qualified for under old law.

Long-Term Facilities Maintenance Revenue

Proposed Phase-In for Districts Not Currently Eligible for Alternative Facilities Funding (Continued)

For FY 2019, maximum revenue equals the greater of:

- **$500** times the district's Adjusted Pupil Units (APU) times the lesser of one or the ratio of the district's average building age to 35 years or
- The amount the district would have qualified for under old law.

For FY 2020 and later:

- All school districts will be eligible for long-term facilities maintenance revenue based on the district's 10-year facilities plan approved by the commissioner without a statutory limit on the amount that can be raised without voter approval, consistent with current practice for the 25 districts now eligible for Alternative Facilities revenue.

Long-Term Facilities Maintenance Revenue
Proposed Levy Equalization

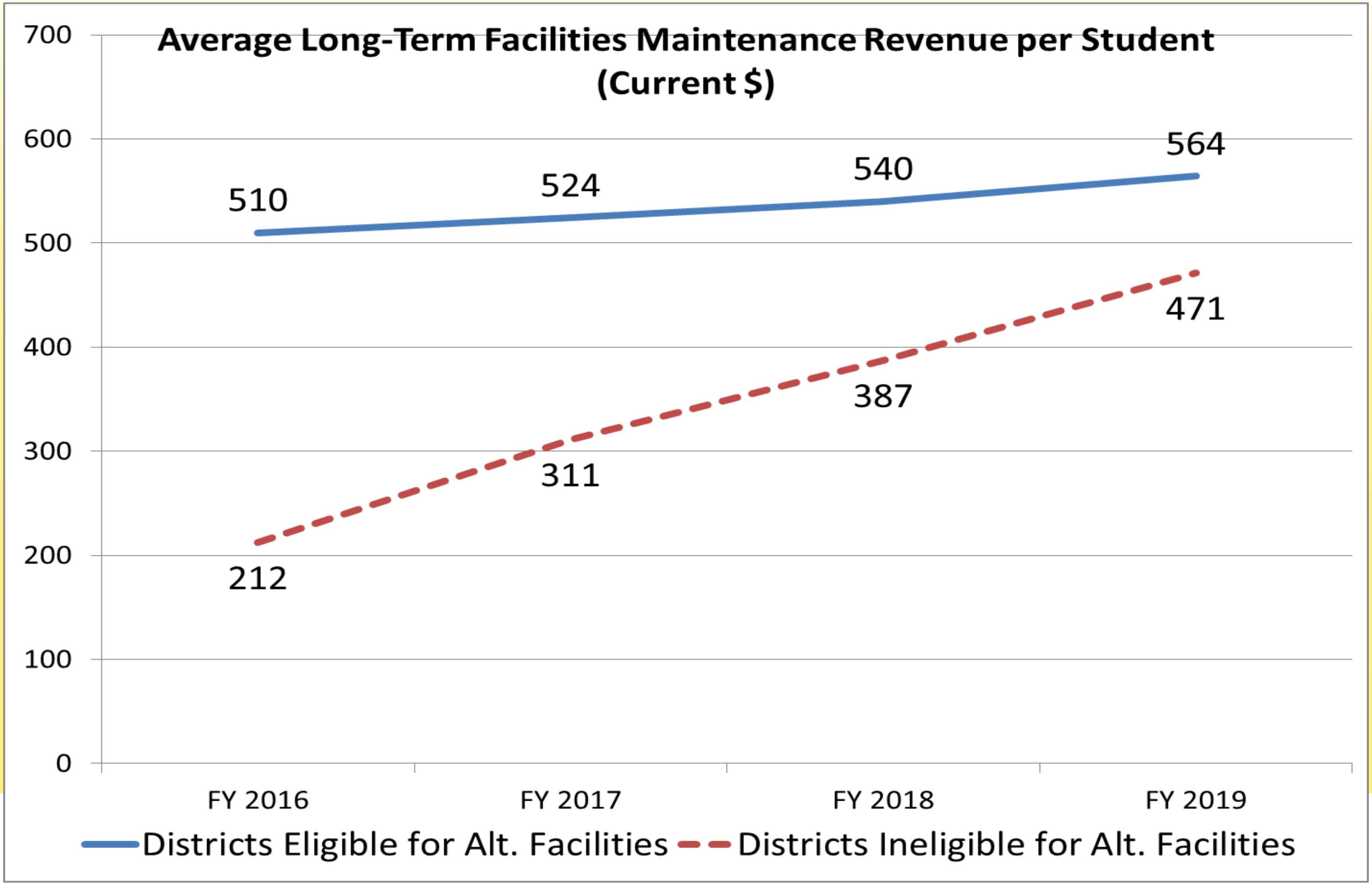
- Revenue would be funded with an equalized levy.
- Districts could choose to levy on a pay-as-you go basis, issue bonded debt, or both.
- Regardless of financing method, the equalizing factor for the levy would be 125% of the state average ANTC per third prior year Adjusted Pupil Unit (indexing to state average would ensure stable state and local shares of revenue over time)
- (equivalent to $8,281 based on FY 2015 data, compared with the current equalizing factor of $5,965).

Current Long-Term Maintenance Funding per Student

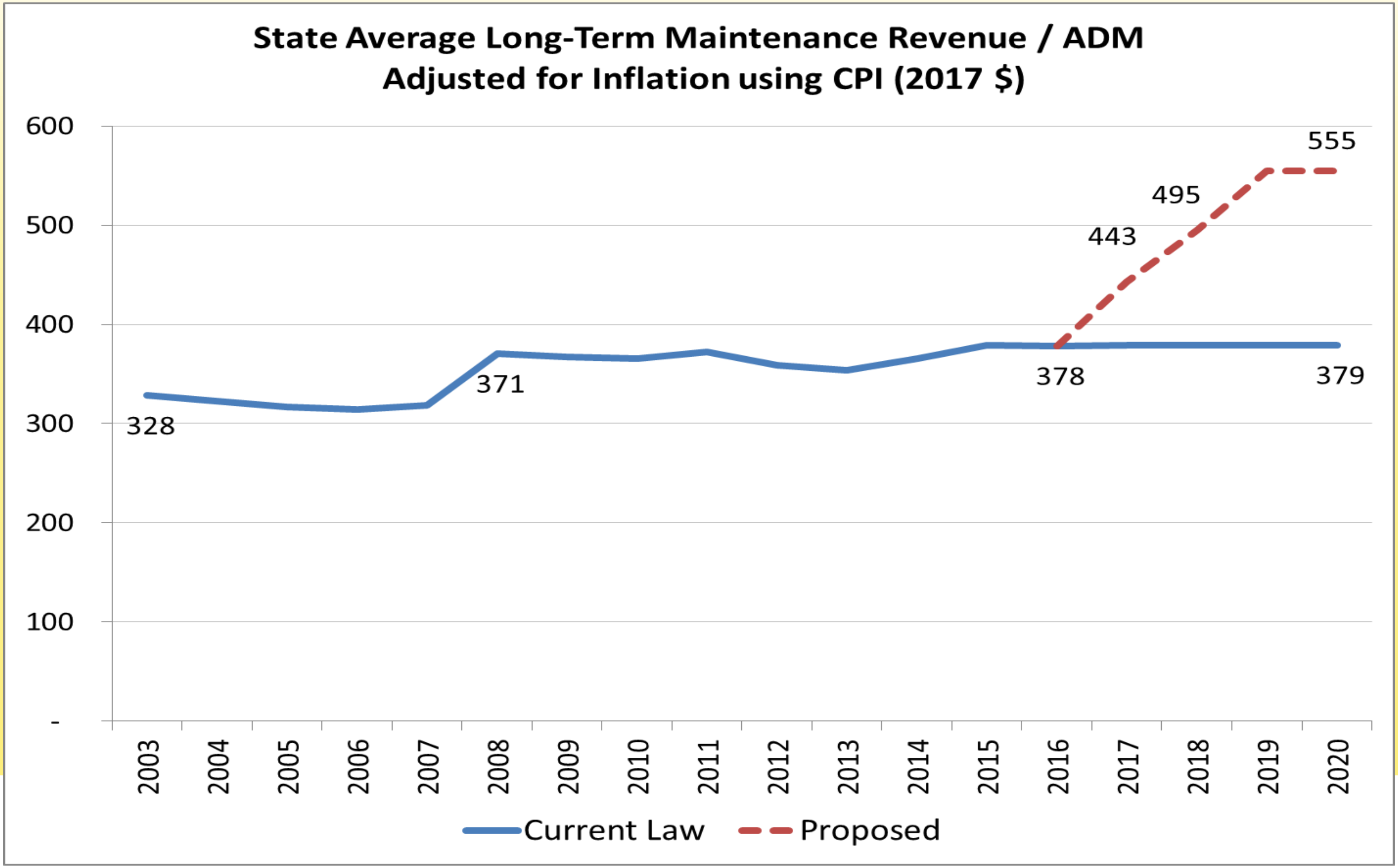
DISTRICT	Alternative Facility Big Districts	Deferred Maintenance (Other Districts)	Heath & Safety	Alt Facility Other Districts (Large H&S Projects)	Total
State Total	198	29	54	49	331
MPLS & ST PAUL	544	-	85	-	629
OTHER METRO, INNER	485	17	59	28	589
OTHER METRO, OUTER	213	17	45	29	305
NONMET>=2K	138	43	52	65	298
NONMET 1K-2K	-	60	60	124	245
NONMET < 1K	-	59	78	92	229
CHARTER	-	-	-	-	-
Alt Facility Eligible	450	-	53	7	510
Alt Facility Ineligible	-	58	61	93	212
ALL SCHOOL DISTRICTS	210	31	57	52	351

Minnesota Department of Education

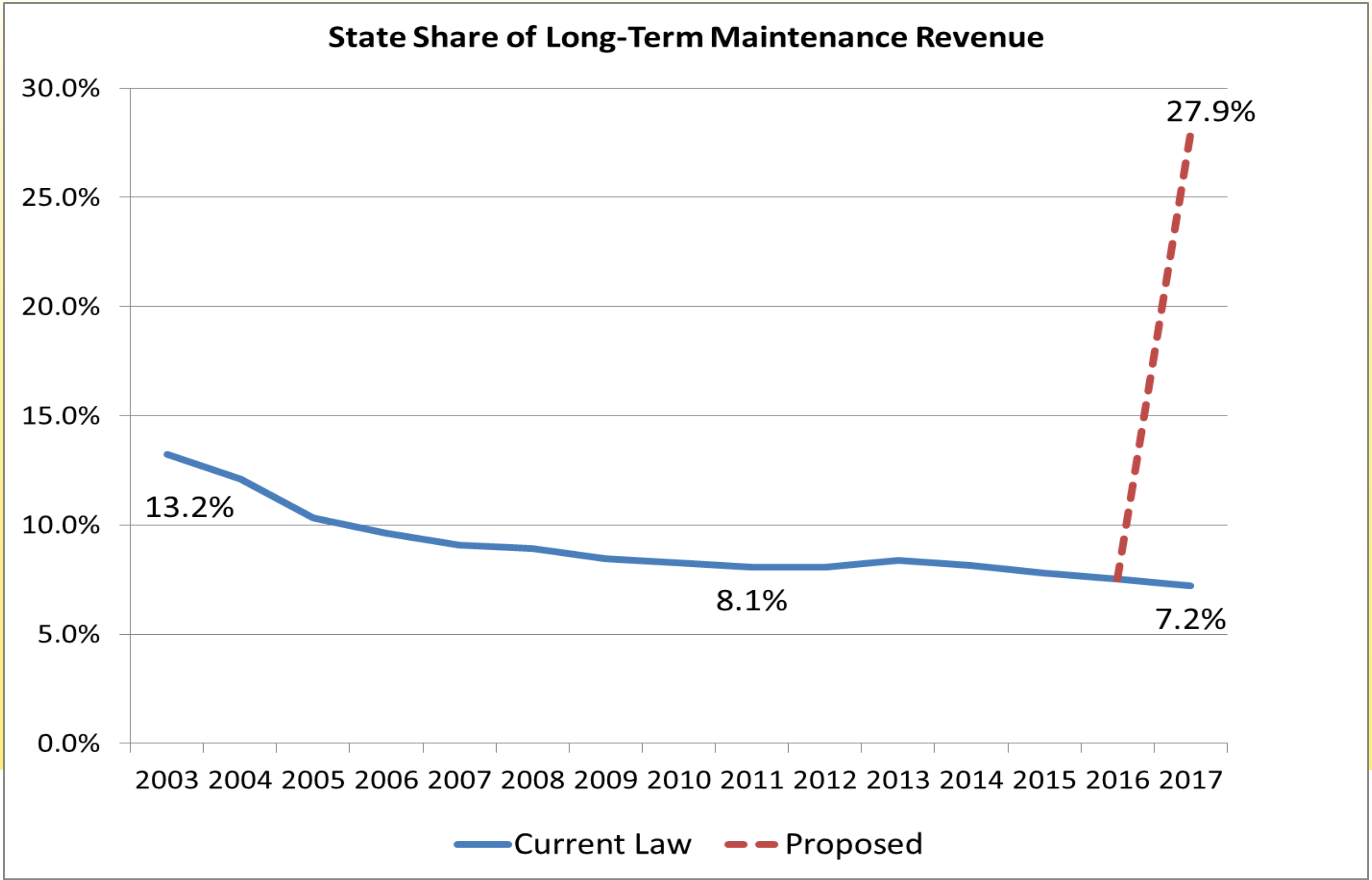
Working group recommendations would gradually close the revenue gap between districts that are currently eligible and ineligible for alternative facilities revenue:



State average long-term maintenance revenue per student would increase gradually in FY 2017 – FY 2019 as funding is phased in for districts not currently eligible for alternative facilities revenue



Improved equalization would increase the state share of long-term maintenance revenue from 7 percent to 28 percent beginning in FY 2017:



Recommendations: Debt Service Equalization

- Lower the threshold to qualify for debt service equalization from 15.74 percent to 10 percent of Adjusted Net Tax Capacity (ANTC)
- Replace two-tiered equalization with a single tier, equalized at 125 percent of state average ANTC per 3rd prior year pupil unit (same equalizing factor as for long-term maintenance)
- Index future equalization to maintain stability in state and local shares of revenue.
- Debt levies under the long-term maintenance program would be equalized through that program and excluded from this program

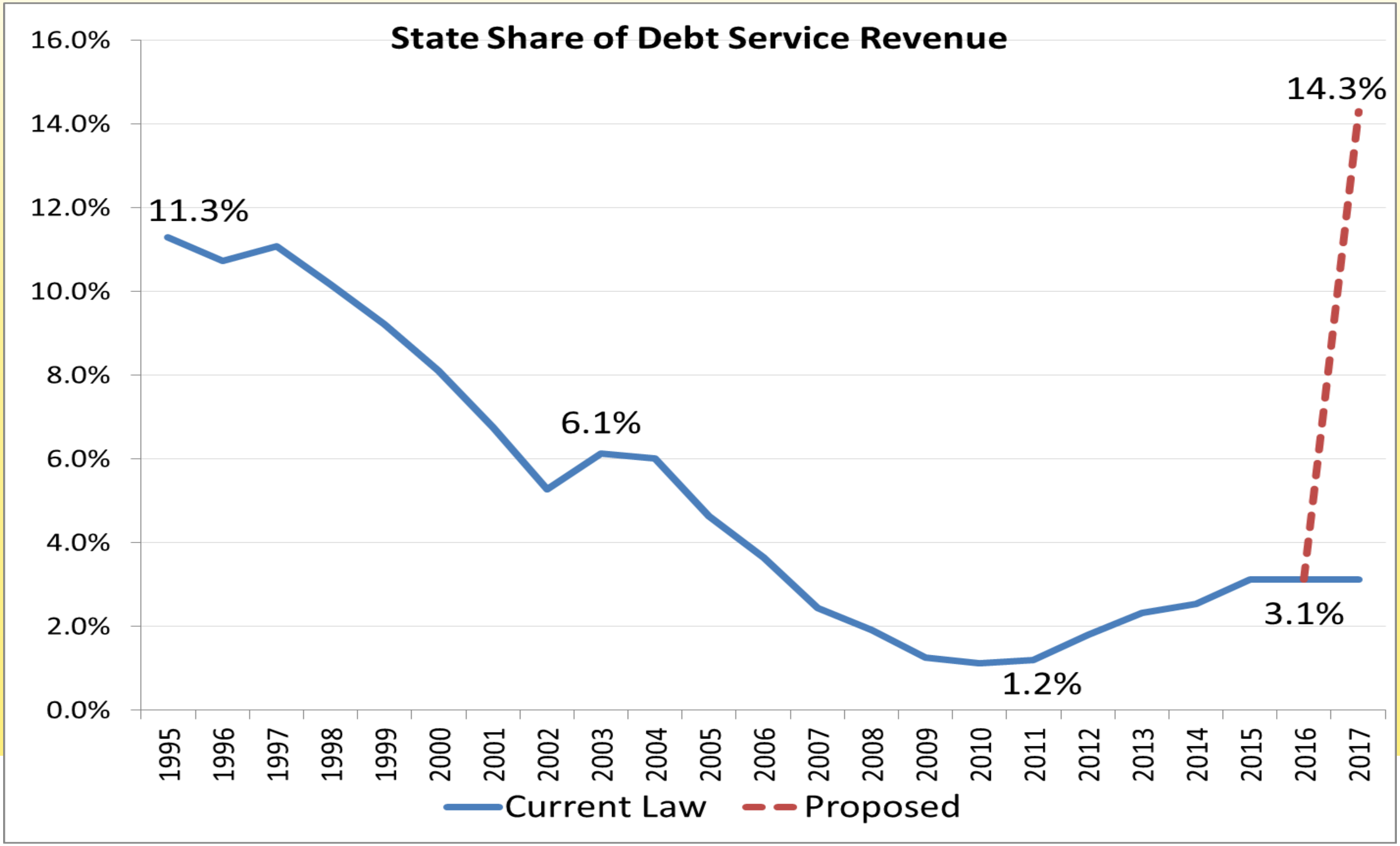
Debt Service Equalization
Percent of Revenue by Equalization Tier

	CURRENT LAW			PROPOSED	
DISTRICT	Unequalized	Tier 1	Tier 2	Unequalized	Tier 1
State Total	79%	14%	6%	64%	36%
MPLS & ST PAUL	100%	0%	0%	87%	13%
OTHER METRO, INNER	83%	16%	2%	70%	30%
OTHER METRO, OUTER	76%	16%	8%	63%	37%
NONMET>=2K	73%	17%	11%	57%	43%
NONMET 1K-2K	81%	14%	5%	63%	37%
NONMET < 1K	85%	12%	3%	68%	32%
Lowest Wealth Quintile	57%	24%	19%	44%	56%
2nd Lowest Wealth	78%	18%	4%	58%	42%
Middle Wealth Quintile	74%	21%	5%	57%	43%
2nd Highest Wealth	97%	3%	0%	85%	15%
Highest Wealth Quintile	98%	1%	0%	89%	11%

Debt Service Equalization
State Aid Share of Revenue by Equalization Tier

	CURRENT LAW		PROPOSED
DISTRICT	Tier 1	Tier 2	Tier 1
State Total	1%	48%	40%
MPLS & ST PAUL	N/A	N/A	35%
OTHER METRO, INNER	1%	43%	40%
OTHER METRO, OUTER	0%	42%	39%
NONMET>=2K	3%	61%	51%
NONMET 1K-2K	2%	36%	33%
NONMET < 1K	1%	39%	28%
Lowest Wealth Quintile	3%	57%	57%
2nd Lowest Wealth	0%	37%	41%
Middle Wealth Quintile	0%	28%	33%
2nd Highest Wealth	0%	11%	12%
Highest Wealth Quintile	0%	0%	0%

Improved equalization would increase the state share of debt service revenue from 3 percent to 14 percent, slightly higher than the original level of 11 percent in FY 1995:



Recommendations: Lease Levy / School Facilities Improvement Revenue

- Replace the school building lease levy with a new facilities improvement revenue that would expand the current uses of revenue to including facility remodeling to enhance school safety and security and provide improved learning environments

- Increase the maximum allowance from $162 to $180 per pupil unit, indexed to the CPI in later years

- Equalize the levy at 125 percent of state average Adjusted Net Tax Capacity (ANTC) per 3rd prior year pupil unit (same equalizing factor as for long-term maintenance & debt service)

Current Building Lease Levy

DISTRICT	Lease Levy Regular (Up to $162 / APU)	Lease Levy Interm. (Up to $46 / APU)	Total Levy	Total / APU
State Total	52,576,897	6,340,258	58,917,155	65
MPLS & ST PAUL	402,856	-	402,856	5
OTHER METRO, INNER	7,547,625	2,629,870	10,177,494	106
OTHER METRO, OUTER	25,534,883	3,710,389	29,245,272	102
NONMET>=2K	12,605,267	-	12,605,267	63
NONMET 1K-2K	4,162,552	-	4,162,552	41
NONMET < 1K	2,323,714	-	2,323,714	25
CHARTER	0	0	0	0

Minnesota Department of Education

Proposed Facilities Improvement Revenue

DISTRICT	Regular @ $180 / APU	Cooperative @ $46 / APU	Total (Maximum)	Revenue / APU	Levy Percent	Levy	State Aid
State Total	161,829,348	16,683,285	178,512,633	177	69%	123,625,562	54,887,070
MPLS & ST PAUL	15,100,344	0	15,100,344	180	78%	11,760,105	3,340,239
OTHER METRO, INNER	17,204,787	4,329,909	21,534,696	180	76%	16,403,033	5,131,663
OTHER METRO, OUTER	51,699,879	8,498,720	60,198,599	180	71%	42,750,784	17,447,815
NONMET>=2K	35,954,037	1,906,613	37,860,650	180	65%	24,793,629	13,067,020
NONMET 1K-2K	18,445,500	1,024,750	19,470,250	180	68%	13,201,886	6,268,364
NONMET < 1K	16,619,274	923,293	17,542,567	180	84%	14,716,125	2,826,442
CHARTER	6,805,527	0	6,805,527	131	0%	0	6,805,527

Recommendations: Capital Projects Referendum

- Equalize the capital projects referendum levy at 125 percent of state average Adjusted Net Tax Capacity (ANTC) per 3rd prior year pupil unit (same equalizing factor as long-term maintenance, debt service and facilities improvement revenues)

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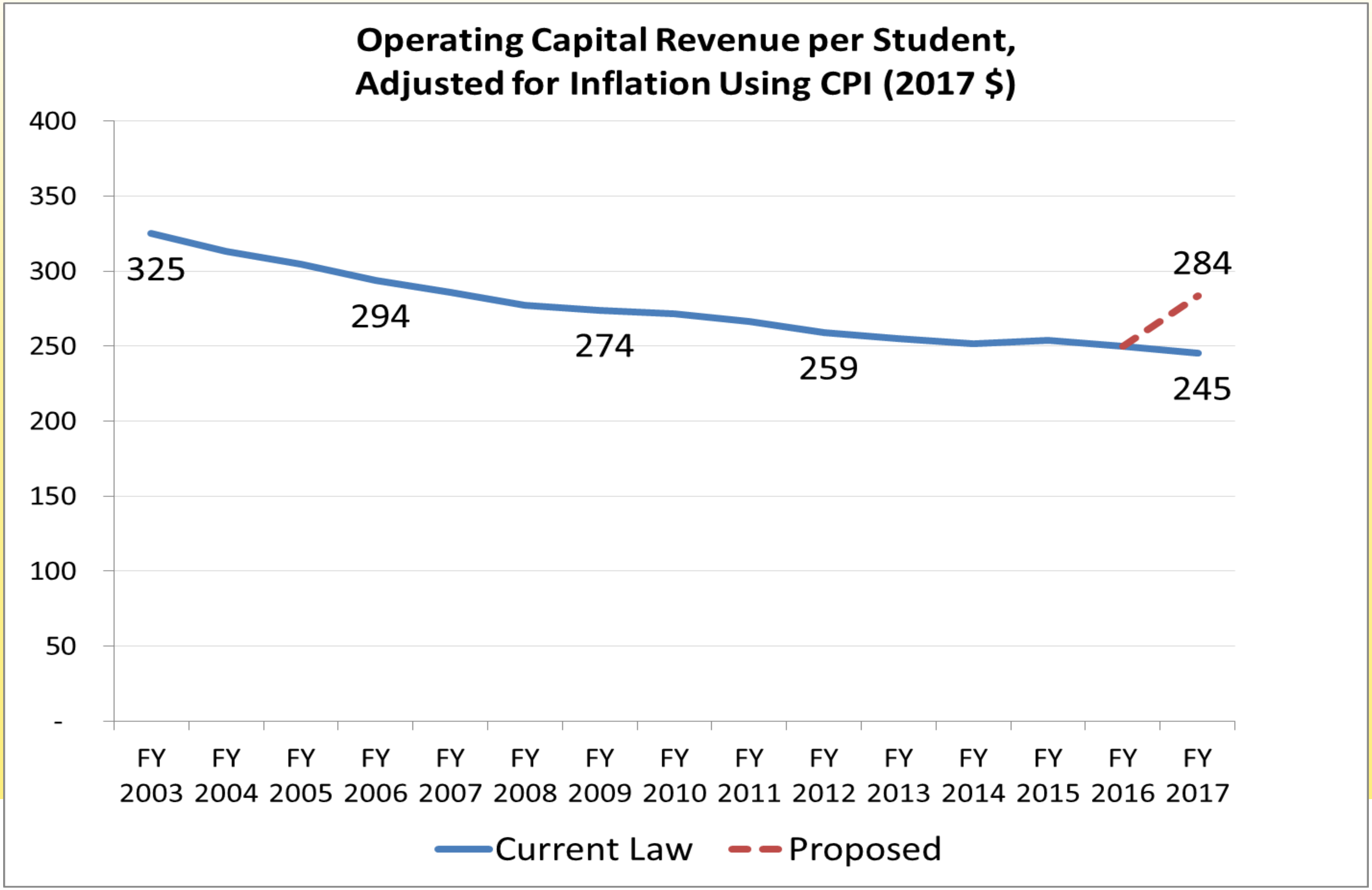
Recommendations: Operating Capital Revenue

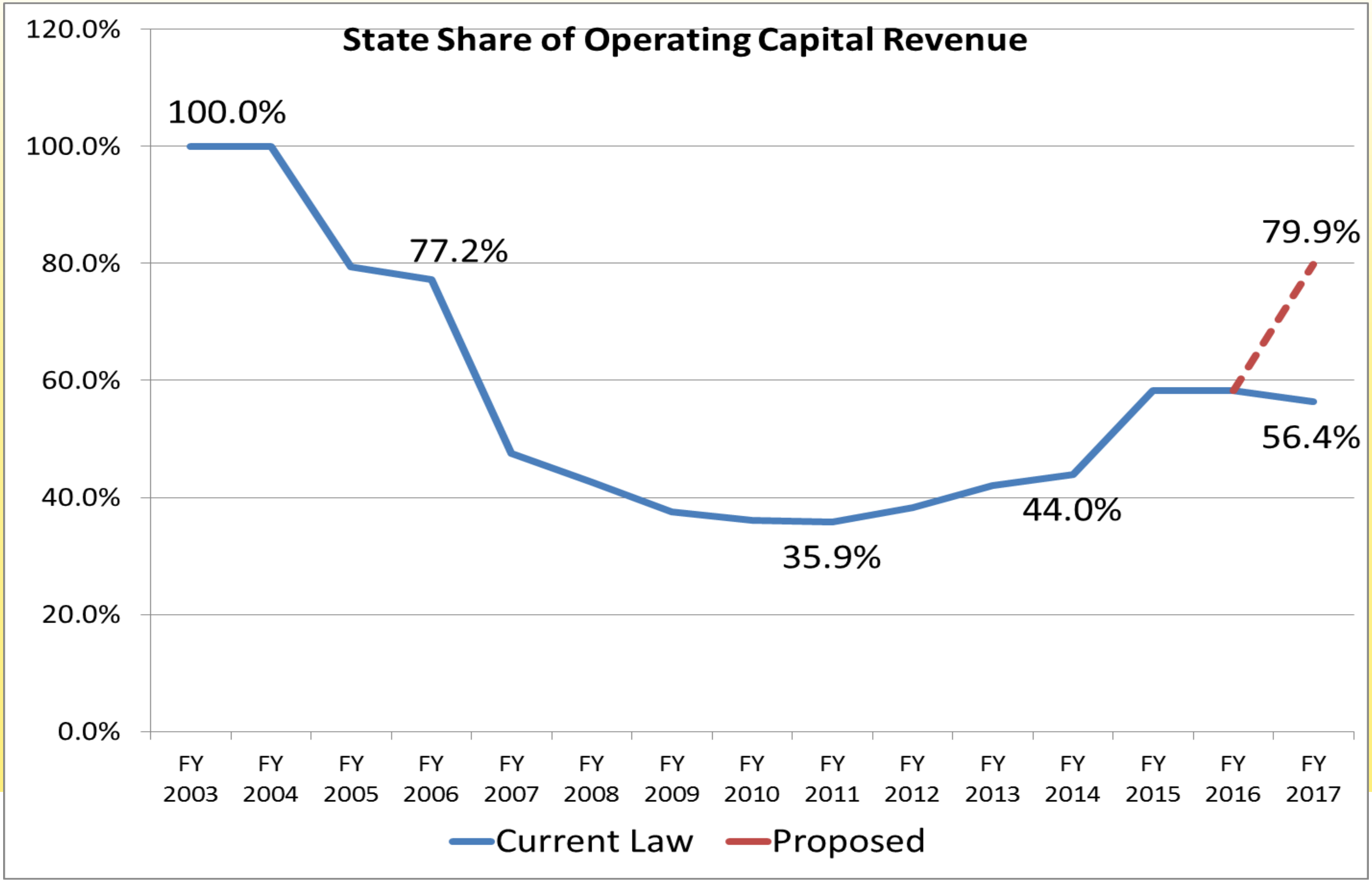
- Increase operating capital revenue to restore a portion of buying power lost to inflation since FY 2003.
  - From [($ 79 x APU) + ($109 x APU x limited Age Index) + ($31 x Year-round PU)] to:
  - [($100 x APU) + ($120 x APU x limited Age Index)]

- Increase the operating capital equalizing factor from $14,500 to 470% of state average ANTC / APU ($30,906 based on FY 15 data)

Increasing the operating capital allowance would restore purchasing power to approximately the FY 2007 level:



Improved equalization would restore the state share of operating capital revenue to approximately the FY 2005 level:



Recommendations: Districts with Unique Needs

- Provide enhanced debt service equalization for districts with unique needs:
  - Significant unfunded natural disaster costs
  - School district consolidations
  - Unusually high debt service tax rates

Recommendations: Review and Comment Process

- Increase the dollar threshold for review and comment
- Eliminate review and comment for projects funded entirely with long-term maintenance revenue, facilities improvement revenue and operating capital revenue
- Reduce paperwork for remaining review and comments
- Eliminate consultation requirements for smaller projects

Recommendations: Charter Schools

- Provide funding increases for charter schools comparable to increases provided for school districts:
  - Long-term maintenance allowance of $59/APU for FY 17, $108/APU for FY 18, and $163 / APU for FY 2019 and later (reflects average increase for districts)
  - Facilities improvement allowance of 163 / APU (reflects average increase for districts)

Recommendations: Cooperatives

- Expand allowable uses of lease levy authority for members of intermediates consistent with facilities improvement program and extend this authority to include special education coops, secondary vocational coops and education districts

- Allow member school boards of intermediate districts and coops to include a proportionate share of intermediate / coop costs in the district's long-term maintenance revenue

Fiscal Impact

- Initial modeling shows an estimated overall increase in school facilities revenue of $206 million in FY 2017, $250 million in FY 2018, and $301 million in FY 2019.

- There would be no increase in state total school levies; but levies would increase for some districts, (especially those receiving significant new revenue), and decrease for others.

- Initial modeling provides only a rough first estimate of fiscal impact. Further work is needed to analyze the behavioral effects of facilities funding changes on local school facilities plans and costs, and how that would affect funding.

Fiscal Impact Summary by Program

(See Handout)

PROGRAM	CURRENT LAW			PROPOSED			PROPOSED CHANGE		
$ in Millions	REVENUE	AID	LEVY	REVENUE	AID	LEVY	REVENUE	AID	LEVY
LONG-TERM MAINTENANCE:									
Deferred Maintenance	26.9	4.1	22.8	-	-	-	-	-	-
Health & Safety	49.4	0.2	49.2	-	-	-	-	-	-
Alt Facility - Big districts	180.9	19.3	161.6	-	-	-	-	-	-
Alt Facility - Other	45.2	-	45.2	-	-	-	-	-	-
Total Long-term Maintenance	302.4	23.5	278.8	451.5	125.8	325.7	149.1	102.3	46.8
CAPITAL PROJECTS REFERENDUM	57.6	-	57.6	57.6	7.2	50.4	-	7.2	(7.2)
FACILITIES IMPROVEMENT:	-	-	-	-	-	-	-	-	-
Lease Levy - Regular	52.6	-	52.6	161.8	-	-	109.3	-	-
Lease Levy- Intermediate	6.3	-	6.3	16.7	-	-	10.3	-	-
Total	58.9	-	58.9	178.5	54.9	123.6	119.6	54.9	64.7
OPERATING CAPITAL	205.4	118.8	86.6	237.7	189.9	47.9	32.3	71.1	(38.7)
	-	-	-	-	-	-	-	-	-
CHARTER SCHOOL LEASE AID	60.5	60.5	-	60.5	60.5	-	-	-	-
	-	-	-	-	-	-	-	-	-
DEBT EXCLUDING ALT FACILITY	619.2	23.0	596.1	619.2	88.8	530.4	-	65.8	(65.8)
GRAND TOTAL	1,303.9	225.9	1,078.1	1,605.0	527.1	1,077.9	301.1	301.2	(0.1)
Percent change							23%	133%	0%
State and local shares of revenue		17%	83%		33%	67%		16%	-16%

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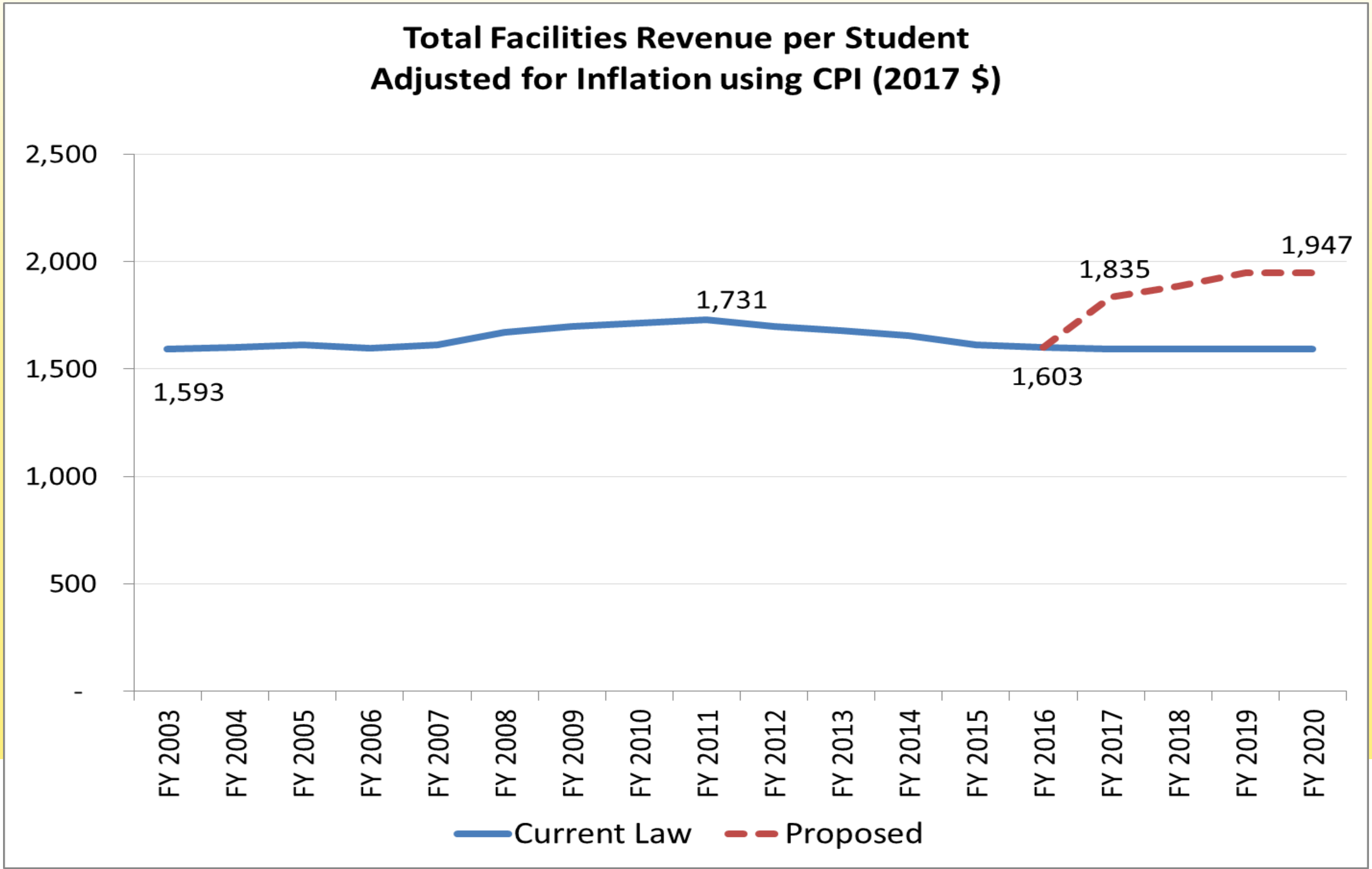
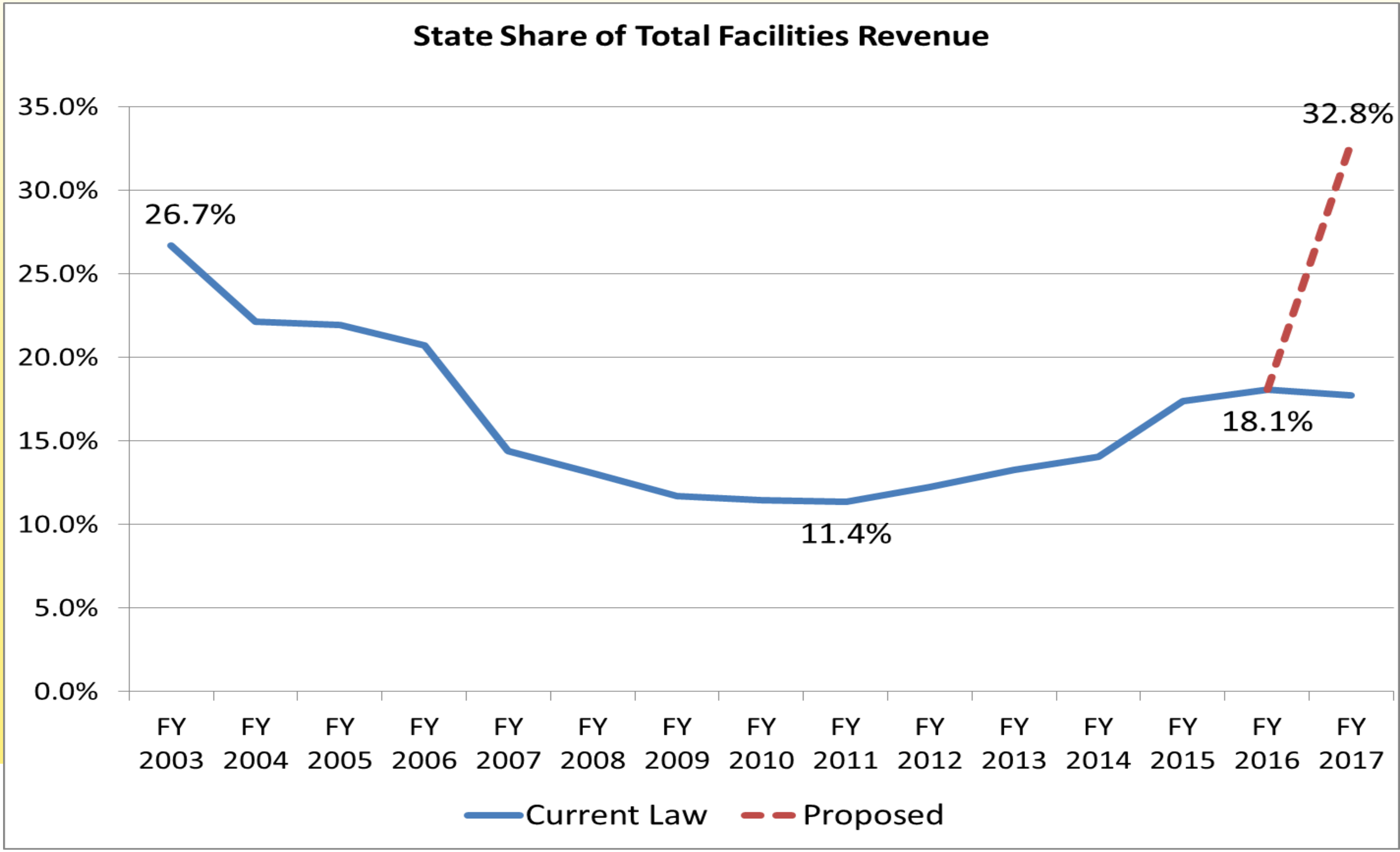
Total facilities revenue per student (adjusted for inflation using the CPI) would increase from $1,603 in FY 2016 to $1,947 in FY 2020 (21.5 percent):



Improved state equalization would increase the state share of overall facilities funding from 18% to 33% beginning in FY 2017, which is slightly higher than the FY 2003 level:



Questions?

- For additional information, please contact:

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