

Commissioner's School Finance Working Group Summary of Process and Recommendations

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SEE Meeting | November 13, 2020

1. Overall Process for School Finance Working Group

2. Recommendations:

- a. Basic Revenue Redefined: 80-20-10 Proposal
- b. Other General Education Revenue
- c. Special Education Revenue
- d. Other General Fund Operating Revenues
- e. Facilities Revenues
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Overall Process for School Finance Working Group

The Commissioner of Education convened the School Finance Working Group in September 2019 “to address education funding issues with the help of Minnesotans who work with our schools every day, and to make sure that all perspectives are represented.... [The] work will focus on carefully and thoughtfully reviewing key funding streams, identifying school finance reform options, and seeking consensus on recommendations for systemic change that will:

- Improve the adequacy and stability of pre-K through grade 12 education funding;
- Prioritize equity;
- Simplify education funding;
- Preserve local control;
- Close the achievement gap;
- Promote high achievement for all students; and
- Direct resources to high quality teaching and learning.”

Overall Process for School Finance Working Group (2)

- The Working Group has **24 members**, including parents, school officials, teachers, and public members and was determined by MDE.
- The working group held **21 meetings** from September, 21 2019 through November 5, 2020. Six were in-person meetings pre-COVID-19, and fifteen were virtual.
- The Working Group organized itself into sub-groups to address ten School Finance Issue Categories / Pressure Points. Each **pressure point** was examined using case studies, as a way of expanding the voices and impact at the table. Following each study, a subcommittee was formed to study one Pressure Point and propose recommendations. Each subgroup made a presentation to the full Working Group describing the Pressure Point. At a later full Working Group meeting, each subgroup presented recommendations to address the Pressure Point. MDE staff supported the subgroups' work.

Overall Process for School Finance Working Group (3)

The following **Pressure Points** were the categories of revenue that the Working Group developed in September-October as most responsible for inadequate and disparate funding:

- Basic Formula
- Special Education Cross Subsidy
- English Language Cross Subsidy
- Achievement Gap
- Pupil Support Staff to Student Ratios
- Some Funding Streams Are Not Equally Available to All School Districts
- Funding Streams Vary Among Different Types of Local Education Agencies
- Pupil Transportation Funding
- Property Tax Levy Equalization
- School Finance System Complexity

Overall Process for School Finance Working Group (4)

Current Status:

- Subgroup presentations were completed in September.
- Members were provided with ballots on October 1 and were instructed to complete and submit their ballots by October 7. Members gave a level of endorsement for each proposed recommendation and were also allowed to propose modifications to the draft recommendations.
- After the ballot information was summarized, the full working group met on October 22 to discuss the ballot results, and after discussion, voted to include all of the recommendations in the final report.
- The final draft report was then prepared and distributed to members for review before the November 5 meeting. At the November 5 meeting, the final report was presented to the Commissioner.
- The recommendations are currently under review by the Commissioner.

Recommendations: Basic Revenue Redefined - 80-20-10 Proposal

- a) Redefine “basic revenue” as the sum of:
 - i. the current formula allowance, (80% of total), which would continue to be fully state funded, and
 - ii. “Local Education Revenue”, (LER), (20% of total), which would be funded with a local property tax on Referendum Market Value (RMV), equalized at 150 percent of the state average RMV per Resident Pupil Unit (RPU).

- b) To reach the 80-20 funding mix, the Local Optional Revenue (LOR) allowance of \$724 and \$917 per pupil unit of referendum revenue would be rolled into LER, making the total LER allowance \$1,641.

- c) New “Basic Revenue” allowance = $\$6,567 + \$1,641 = \$8,208$

Basic Revenue Redefined: 80-20-10 Proposal

- d) The operating referendum cap would be reduced by the \$917 rolled into basic revenue, leaving the new referendum cap at 10% of basic revenue.
- e) For a district where the referendum allowance is less than the \$917 transferred to LER, there would be a net increase in board authorized allowance in the amount of the difference. (Similar to shift from voter-approved to board-approved when LOR was created in FY 2016)
- f) Charter schools would receive the state average LER aid per pupil unit

New Basic Revenue Adjusted for Inflation and Roll-Ins

- a) The new combined basic revenue allowance of \$8,208 for FY 2023 would then be increased:
- for inflation at 2% per year over the base, and
 - by rolling equity revenue, transition revenue, gifted & talented revenue, literacy incentive aid and telecommunication equity aid into the base. (Roll-ins add \$132/PU to fully state funded portion of new basic revenue and \$33/PU to the LER portion)
- b) This would increase the combined basic revenue allowance for FY 2023 to \$8,704, of which 80 percent or \$6,964 would be fully state funded, and 20 percent or \$1,740 would be LER.
- Increase in formula allowance = $\$6,964 - \$6,567 = \$397$
 - Increase in board authorized LER / LOR = $\$1,740 - \$724 = \$1,016$
 - Reduction voter approved referendum = up to \$917
- c) For later years, the combined basic revenue amount would be indexed for inflation using the prior year Consumer Price Index (CPI) and the increases forecasted in state budgeting.

Voter Approved Operating Referendum

- a) The standard referendum cap of \$1,780 would be reduced by \$917 to reflect the funding moved from referendum revenue to the LER portion of basic revenue leaving a new standard cap of \$863.
- b) The standard cap would be indexed at 10% of basic revenue for FY 2023 and later. With the combined basic revenue at \$8,704 for FY 2023 after adjustments for inflation and the roll-ins, the adjusted standard cap would be \$870.40. Districts receiving sparsity would still be exempt from the cap, and the few districts with allowances grandfathered over the standard cap would continue to receive the grandfathered amount.
- c) The remaining referendum revenue would be equalized up to the standard cap at 125 percent of the state average RMV per RPU.

Other General Education Revenue Location Adjustment Revenue

- a) New component of general education revenue for FY 2023 and later based on Geographic Cost of Education Index (GCEI)
- b) GCEI ranges from 1.12 (112% of state average) to 0.71 (71% of state average)
- c) 159 Districts with GCEI exceeding 0.80 (80 Percent of the state average) would receive revenue to address regional cost differences under the following formula:
 - LAR Allowance = $(\text{GCEI} - .80) * \text{Combined Basic Formula} * 15 \text{ percent}$
 - Minneapolis: $(1.12 - .80) * \$8,704 * 15\% = \418
 - Anoka: $(1.08 - .80) * \$8,704 * 15\% = \367
 - Rochester $(0.93 - .80) * \$8,704 * 15\% = \173
 - Hibbing $(0.84 - .80) * \$8,704 * 15\% = \52

Other General Education Revenue Location Adjustment Revenue

- d) Funded with a levy on RMV equalized at 125 percent of the state average RMV / RPU;
- e) This new revenue would be offset against an eligible district's referendum allowance;
- f) The referendum cap would remain at 10% of basic revenue so the room under the cap would be increased by an equal amount; and
- g) For an eligible district where the referendum revenue is less than the new revenue allowance, there would be a net increase in board authorized local revenue in the amount of the difference.

Other General Education Revenue

- a) **English Learner (EL) Revenue:** Reduce EL cross subsidy from approximately 67 percent of EL expenditures to approximately 50 percent of EL expenditures by adjusting the formula to recover buying power lost to inflation since the formula was initiated, and extending the concentration formula to reflect growing concentration of EL students. Fund a portion of the revenue increase with a levy equalized at 150 percent of the state average RMV per RPU.
- b) **Pupil Transportation Excess Cost Funding** - Increase cross subsidy reduction revenue from 18.2% to 70% ; funded with equalized levy on RMV; equalized at 125% of state average RMV per RPU.
- c) **Extended time:** Increase the allowance from \$5,117 per extended time pupil unit to 100% of the state-funded portion of the basic revenue allowance (\$6,964 in FY 2023); fund charter schools the same as districts

Other General Education Revenue

- d) Small Schools:** Restore the maximum allowance to 10% of the combined basic revenue allowance (\$870) from the current level of \$544; establish a minimum revenue for districts with fewer than 480 pupil units; funded with local levy equalized at 125% of the state average RMV / RPU.
- e) Operating Capital:** Equalizing factor reduced from approximately 300% of state average ANTC / APU to 150% of state average ANTC / APU to hit overall zero levy target
- f) Compensatory:**
 - i. Add revenue for data reporting and sharing best practices, and revenue for MTSS and Middle School model for more equitable eligible uses of compensatory funding; and
 - ii. Consider replacing Free and Reduced Lunch eligibility percentage with a new measure to allocate compensatory education revenue. Consider a hold harmless clause in the short term.

Special Education Funding

a) FY 2022:

Increase cross subsidy reduction aid by \$29 million (from 6.43 percent to 9.65 percent of unfunded cost) to hold the state total cross subsidy per student constant at the FY 2019 – FY 2021 level.

b) FY 2023 and later:

Increase special education funding by \$138 million to eliminate the state portion of the cross subsidy, simplify the formula, fund a portion of the increase with an equalized levy, and reform charter school tuition billing.

Other Current General Fund Operating Revenues

Q Comp

- a) Eliminate statewide cap on Q Comp basic aid; all districts eligible for \$169 per pupil to do Teacher Development and Evaluation (TDE);
- b) Districts may levy \$91 equalized at 125% of average ANTC/APU should the district want to add the performance pay option;
- c) For cooperatives and Intermediates, all receive \$2,000 for every coop teacher for TDE and may choose to add \$1,000 for performance pay;
- d) All of these amounts are to be indexed to the basic general education formula;
- e) 2% set aside for TDE continues as currently in statute;
- f) Maintain all allowable uses of –Comp and add loan forgiveness as an allowable use; and
- g) Update 2015 TDE/ATPPS Work Group recommendations and enact with further work to integrate with more recent developments.

Other Current General Fund Operating Revenues

Safe Schools Revenue

- a) Increase allowance from \$36 to \$72 per student for districts, with a minimum per district of \$30,000;
- b) from \$0 to \$72 for charter schools;
- c) from \$15 to \$30 per member district student for intermediates; and
- d) from \$0 to \$30 per member district student for other cooperatives.
- e) Equalize the levy at 125 percent of the state average ANTC / pupil.

Other Current General Fund Operating Revenues

a) **Achievement & Integration Revenue**

- Increase allowance by 15% for FY 2023 to Restore Buying Power Lost to Inflation Since FY 2014 and link allowance for FY 2024 and later to basic formula

b) **American Indian Education Aid**

- Increase minimum aid from \$20,000 to \$60,000 for the first 20 students., and increase the rate per student for the number of American Indian students over 20 from \$358 to \$1,212. Subject to tribal consultation.

c) **Career Tech Education, Capital Project Referendum, and Reemployment Insurance**

- Equalize all three levies at 125% of state average ANTC/APU.

Other Current General Fund Operating Revenues

d) Concurrent Enrollment Aid

- Make it a forecasted program; eliminate proration (currently prorated at about 33 percent); and link the allowance for FY 2024 and later to basic formula

e) Tribal Contract School Aid

- Provide additional state aid equivalent to what school districts and charter schools receive from Permanent School Trust Fund Endowment payments.

Other General Fund Operating Revenues

Early Learning

The work group developed and costed the following two approaches to Early Learning for 4 year-olds:

- a) 'K-4' which is universal grade prior to kindergarten for Minnesota's approximately 56,000 4 year-olds with a minimum 510 hours of preschool including existing VPK/SR+; and
- b) 'Jump Start to Learning' is targeted for approximately 23,000 4-year-olds eligible for FRE with a minimum 510 hours of preschool including existing VPK/SR+ which continue as is.

New Proposed General Fund Operating Revenues

Racial Equity Aid

- a) Provide a significant investment, comparable to compensatory revenue, to school districts and charter schools to expand services for students of color and American Indian students.
- b) Schools would receive the sum of a flat rate equal to 8.4% percent of the basic revenue allowance (\$731 in FY 2023) plus a concentration rate equal to the product of 16.8 % of the basic revenue allowance times the district's protected student concentration percent (\$731 for a district with a 50 percent concentration of protected students) for each student in a protected class.
- c) The formula would be fully funded with state aid, be focused on research-based practices to close the achievement and opportunity gap, and have at least 95 percent of funds spent at the site that generates the aid.

New Proposed General Fund Operating Revenues

Student Support Personnel Aid

- a) Establish a new aid program to reduce student to staff ratios for school nurses, school counselors, chemical dependency counselors, social workers, and psychologists.
- b) Provide \$477 times the number of students enrolled for school districts and charter schools, with a floor of \$240,000 for school districts and a floor or \$80,000 for charter schools. Intermediate districts and other cooperatives enrolling students would receive \$100 times the number of students enrolled in member districts.
- c) Set aside a portion of the funding to expand higher education programs and provide scholarships for producing related service providers. Create funding streams to cover all re-licensure/initial licensure requirements for related service personnel, particularly focused at increasing service providers of color.

New Proposed General Fund Operating Revenues

Other

- a) **Full Service Community Schools** - \$250,000 in funding for every school identified for Comprehensive (203 sites) and Targeted Support (159 sites) in ESSA for a total (362) sites.
- b) **Trauma Incentive Aid** - \$250,000 grants to 80 identified schools of \$250,000 each annually, with a preference for schools identified for comprehensive support under the Every Student Succeeds Act or schools within districts with large discipline disparities identified by the Minnesota Human Rights Department.
- c) **Scholarships for Teacher Candidates of Color and American Indian Teacher Candidates** - \$10,000 scholarships at Minnesota public colleges or universities to 1,000 teacher candidates of color or American Indian teacher candidates annually, leading to up to 11,000 teachers of color or American Indian teachers licensed over 15 years.
- d) **Teachers of Color in Greater Minnesota** - funding stream for schools in greater Minnesota to create multi-district affinity groups for isolated educators of color or American Indian mentors, including providing stipends to mentors of color or American Indian mentors.

New Proposed General Fund Operating Revenues

Other

- e) **Education Support Professionals** - For schools identified for Targeted or Comprehensive support, provide an ESP in every classroom to provide support for students' needs; close the ESP wage gap and raise starting pay to at least \$20 an hour.
- f) **Fund semester long student-teaching experiences** - Provide \$12,000 semester-long internship available to all 2,400 teacher candidates that enter the field each year. These internships should be open to teacher candidates earlier than their senior year of college.
- g) **Expand Teacher Loan Forgiveness** - Increase annual loan forgiveness to \$2,000 a year and increase the total amount of funding to \$2 million. Broaden funding to include related service providers.
- h) **Provide Special Education Training to Education Support Professionals** - Provide all education support professionals (ESPs) working primarily in special education with 20 hours of special education focused professional development annually. This must be paid training and it must supplement, not supplant, the professional development being offered all district staff and ESPs.

Facilities Revenues

Long Term Facilities Maintenance (LTFM)

- a) Close the funding gap between Alternative Facility districts and all other districts over 3 years by increasing the maximum per pupil allowance for non-alternative facilities districts from \$380 to \$470 in FY 2023 to \$560 in FY 2024 and to \$650 in FY 2025.
- b) To prevent the gap from re-appearing future years, do one of the following:
 - Make all school districts eligible for LTFM 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 26 districts now eligible for Alternative Facilities revenue; or
 - For FY 2026 and later, adjust the non-alternative facility districts aid and levy formula allowance for inflation (link to CPI or general ed formula). Specify that non-alt facility districts shall receive not less than 80% of average for alt facility districts.
- c) Expand the existing authority for projects over the lesser of \$100,000 per building, or \$200 per pupil (ADM), to include all projects eligible for LTFM over this threshold subject to commissioner approval.

Facilities Revenues Building Lease Levy

- a) Equalize the Building Lease levies at 125% of Average ANTC/APU to enable districts with low tax base to participate and reduce inequities between high tax base and low tax base districts
- b) Allow Greater Minnesota cooperatives to access the same lease levy authority as intermediates (\$65 / member district student)
- c) Allow school districts to use lease levy for cooperative facilities even if they once owned the facility
- d) Allow school districts to form joint powers boards to bond for improvements and new facilities for cooperative purposes

Facilities Revenues Debt Service Equalization (DSE)

- a) Lower the threshold to qualify for debt service equalization from 15.74 percent to 10 percent of Adjusted Net Tax Capacity (ANTC)
- b) Replace two-tiered equalization with a single tier, equalized at 100 percent of state average ANTC per 3rd prior year pupil unit
- c) Continue to index future equalization at 100% of State Average ANTC/APU to maintain stability in state and local shares of revenue.

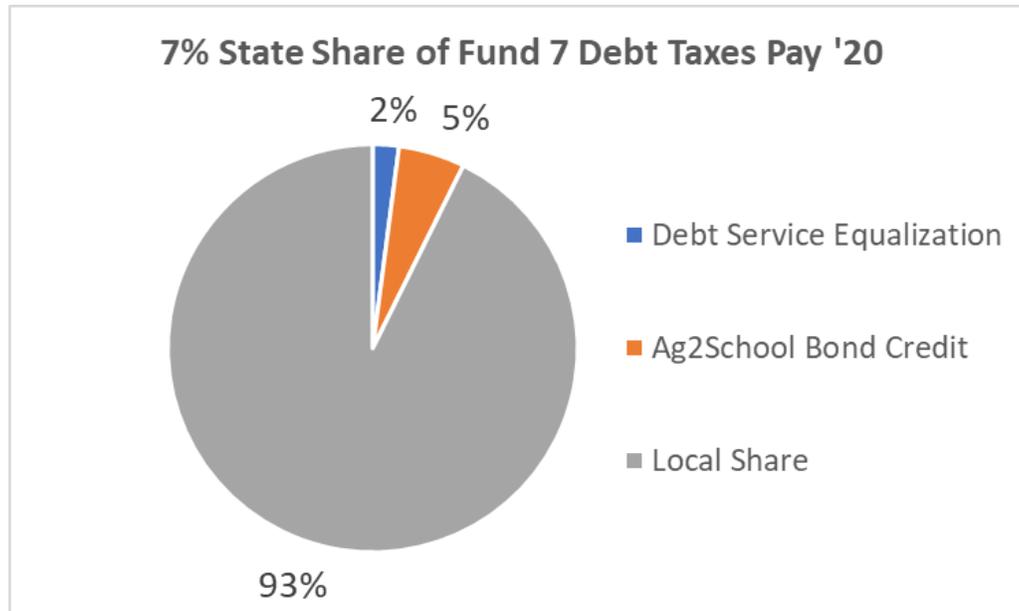
Facilities Revenues

NEW Homestead Bond Credit

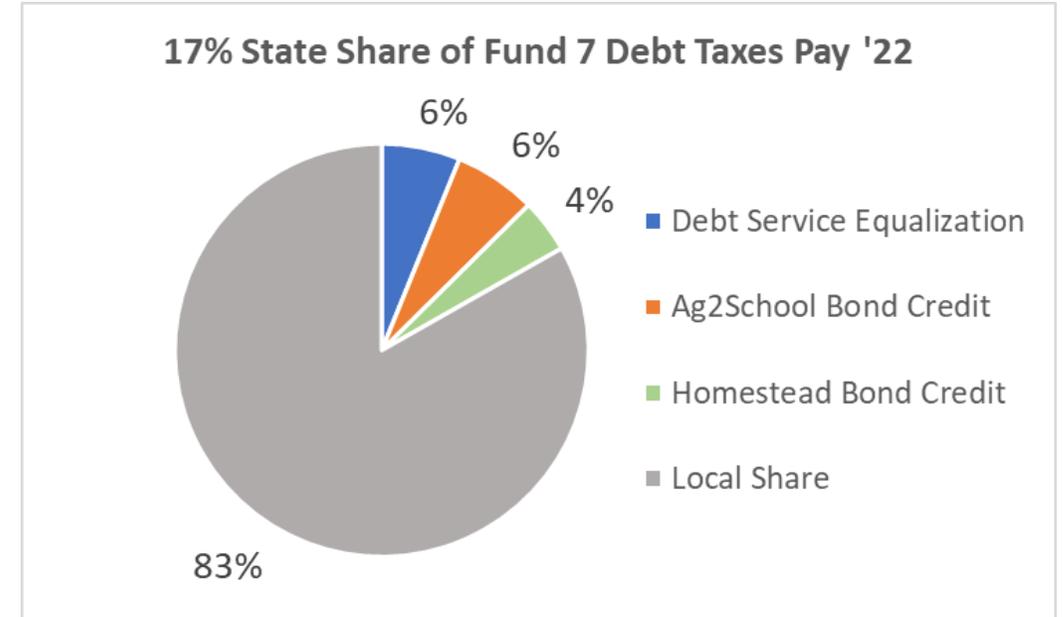
- a) Establish a new homestead bond credit equal to 30% of school debt service tax in excess of 10% of Net Tax Capacity (NTC) to a max credit of \$200.
- b) The credit would apply to Homestead, including Ag homestead, and Residential Non-Homestead Residential (1-3 unit apartments). Property owners in these classes paid 56% of bonded debt facility levies in 2020 (\$594 million).
- c) This would mirror the Ag2School bond credit with a credit showing on the tax statements on all Fund 7 debt levies except OPEB and would be in addition to Debt Service Equalization (DSE).
- d) More districts would be eligible for the credit than for debt service equalization because ANTC per pupil unit would not be a factor in calculating the credit.

Impact of Improved DSE and New Homestead Bond Credit Both are Indexed and Scalable

Current Picture: 7% State Share



Proposed Pay '23 Picture: 17% State Share



Facility Debt State Share Program	Proposed FY 23 Revenue Increase	Proposed FY 23 Aid Increase (Equalization Aid)	Proposed FY 23 Levy Change
Debt Service Eq	\$ 0	\$ 52,085,000	\$ (52,085,000)
Homestead Credit	\$ 0	\$ 50,823,000	\$ (50,823,000)

Fiscal Impact of Recommendations

9999	FY 2023 Funding per Student (Adjusted Pupil Unit (APU))								
GRAND TOTAL	Current Law			Draft Proposal			Proposed Change		
Students (APU):	Revenue	Aid	Levy	Revenue	Aid	Levy	Revenue	Aid	Levy
968,045									
Redefining Basic Revenue									
Basic	6,567	6,567	-	6,964	6,964	-	397	397	-
Local Optional Revenue (LOR) / Local Education Revenue (LER)	668	114	554	1,644	628	1,016	976	514	462
Referendum (After adjustments)	977	24	953	213	26	188	(764)	1	(765)
Other General Education	740	740	-	784	784	(0)	44	44	(0)

Fiscal Impact of Recommendations (2)

9999	FY 2023 Funding per Student (Adjusted Pupil Unit (APU))								
GRAND TOTAL	Current Law			Draft Proposal			Proposed Change		
Students (APU):	Revenue	Aid	Levy	Revenue	Aid	Levy	Revenue	Aid	Levy
968,045									
Simplifying Formulas - (Roll Ins)									
Equity	116	18	98	-	-	-	(116)	(18)	(98)
Gifted	13	13	-	-	-	-	(13)	(13)	-
Transition	31	4	27	-	-	-	(31)	(4)	(27)
Tax Base Replacement aid (TBRA) + Referendum/LOR Aid Guarantee	-	9	(9)	-	-	-	-	(9)	9
Literacy Incentive	48	48	-	-	-	-	(48)	(48)	-
Telecom	4	4	-	-	-	-	(4)	(4)	-
Reducing Cross Subsidies									
English Learner	62	62	-	101	92	9	40	30	9
Special Education	2,077	2,077	-	2,203	2,113	90	125	36	90
Transportation Excess Cost	4	4	-	14	3	10	10	(0)	10

Fiscal Impact of Recommendations (3)

9999	FY 2023 Funding per Student (Adjusted Pupil Unit (APU))								
GRAND TOTAL	Current Law			Draft Proposal			Proposed Change		
Students (APU):	Revenue	Aid	Levy	Revenue	Aid	Levy	Revenue	Aid	Levy
968,045									
Equalizing Current Operating Levies									
Operating Capital	226	135	92	226	96	131	-	(39)	39
Career and Tech	41	2	39	41	11	30	-	9	(9)
Reemployment	6	-	6	6	1	4	-	1	(1)
Community Ed	43	0	43	43	4	39	-	4	(4)
School Age Care	29	-	29	29	6	23	-	6	(6)
Home Visiting	1	1	0	1	0	1	-	(0)	0
Closing Achievement / Opportunity Gaps									
Achievement & Integration	128	89	38	144	111	33	16	22	(6)
American Indian Education	12	12	-	39	39	-	27	27	-
Extended Time	58	58	-	79	79	-	21	21	-
Extended Time - Charter	1	1	-	7	7	-	7	7	-
Racial Equity	-	-	-	508	508	-	508	508	-
Full Service Community Schools	-	-	-	92	66	26	92	66	26

Fiscal Impact of Recommendations (4)

9999	FY 2023 Funding per Student (Adjusted Pupil Unit (APU))								
GRAND TOTAL	Current Law			Draft Proposal			Proposed Change		
Students (APU):	Revenue	Aid	Levy	Revenue	Aid	Levy	Revenue	Aid	Levy
968,045									
Expanding Early Learning Statewide									
K-4 (Universal PK)	-	-	-	392	321	70	392	321	70
Improving Staff Recruitment, Retention and Development									
Q Comp	133	91	42	247	192	56	114	100	14
Support Staff	-	-	-	501	501	-	501	501	-
Sp Ed Para Professional Development	-	-	-	15	15	-	15	15	-
Improving Equity in School Facilities									
Capital Projects	138	-	138	138	16	122	-	16	(16)
Lease	206	104	102	206	130	76	-	27	(27)
LTFM	590	115	474	750	177	573	160	62	99
Debt Service Equalization	909	26	883	909	80	829	-	54	(54)
Debt Homestead Credit	-	-	-	-	53	(53)	-	53	(53)

Fiscal Impact of Recommendations (5)

9999	FY 2023 Funding per Student (Adjusted Pupil Unit (APU))								
GRAND TOTAL	Current Law			Draft Proposal			Proposed Change		
Students (APU):	Revenue	Aid	Levy	Revenue	Aid	Levy	Revenue	Aid	Levy
968,045									
Strengthening Other Programs									
Safe Schools	38	-	38	91	28	63	53	28	25
Concurrent Enrollment	4	4	-	12	12	-	8	8	-
GRAND TOTAL w/ K-4	13,886	10,339	3,547	16,637	13,126	3,511	2,750	2,787	(37)
				-	-	-	-	-	-
Jump Start	-	-	-	163	136	26	163	136	26
GRAND TOTAL w/Jump Start	13,886	10,339	3,547	16,408	12,941	3,466	2,521	2,602	(81)

Fiscal Impact of Recommendations (6)

9999	FY 2023 Total Funding - Full Implementation of Draft Working Group Proposals		
GRAND TOTAL	Proposed Change - Total \$		
	Revenue	Aid	Levy
GRAND TOTAL W/K-4	2,755,255,010	2,790,319,225	(35,064,215)
GRAND TOTAL W/Jump Start	2,533,735,714	2,611,600,782	(77,865,068)

Thanks!

Please send any additional questions or comments to:
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