School Finance Update
Back to School Conference

Tom Melcher | Minnesota Department of Education (MDE)
School Finance Director
August 7, 2019
Ten Minnesota Commitments to Equity

1. Prioritize equity.
2. Start from within.
4. Go local.
5. Follow the money.
7. Monitor implementation of standards.
8. Value people.
10. Give students options.
1) MDE implementation of 2019 school finance legislation

2) School finance trends, issues and options for the future

Note: The funding options outlined in this presentation are just a few of many options for maintaining and improving our school finance system. They are examples, intended only to stimulate discussion, and are not official recommendations of MDE or the Walz administration.
Implementation of 2019 School Finance Legislation

1. Safe Schools Supplemental Aid
2. Special Education Aid
3. General Education Revenue
4. Voluntary Prekindergarten (Pre-K)/School Readiness Plus (SRP)
5. School Bond Agricultural Credit
6. Final Payments for Fiscal Year (FY) 2018
• Up to $30 million will be allocated, contingent on the state’s FY 2019 closing balance.

• Funding availability will not be determined until September, when the state’s books are closed for FY 2019; however, full funding appears likely based on recent tax collections.

• The aid would be allocated among districts and charter schools on a per student basis ($34.70 per FY 2018 adjusted average daily membership (ADM) if the full $30 million is allocated).

• If the aid becomes available, MDE plans to pay 100 percent on October 30, 2019.

• Districts must reserve the aid and use it for the same purposes as the safe schools levy; charter schools must reserve the aid and use it either for these same purposes or for building lease costs not covered by charter school lease aid.
**Goal:** Increase special education aid by the amount needed to hold the state average cross-subsidy per pupil constant at the FY 2019 level of $820/ADM in FY 2020 and FY 2021.

**Formula mechanics – beginning in FY 2020:**

- *Cross-subsidy reduction aid* targets new money to districts with the largest cross-subsidies – 2.4 percent in FY 2020 and 6.43 percent in later years.
- *Aid cap* increased in FY 2020 and eliminated in FY 2021 and later.
- *Tuition rate* paid by the resident school district for open enrolled special education students reduced to 85 percent for FY 2020 and to 80 percent for later years.
- *Hold harmless* adjusted to reduce reliance on the FY 2016 base and factor in current year costs.
Implementation schedule:

Estimated Aid Entitlement for July 15 Integrated Department of Education Aids System (IDEAS) payment was based on MDE projections from the end of the legislative session, modified to limit any local educational agency (LEA) to what they have in the Special Education Data Reporting Application (SEDRA) and budgeted for special education transportation in FY 2020. These are rough estimates.

*Special Education Comprehensive Aid Report* is being updated to reflect the new legislation; the goal is to have it ready to go by August 30 for the September 15 IDEAS payment.

*Special Education Interactive Projection Model* is also being updated; the goal is to have it posted by late July.
Basic formula increased by two percent in FY 2020 and an additional two percent in FY 2021.

$300 per pupil of Referendum Revenue transferred to Local Optional Revenue in FY 2021.

Implementation:

- **FY 2020 What-If** updated and is posted to the Data Center.
- **FY 2020 Aid Entitlement Report** updated and posted to the Minnesota Funding Reports (MFR) section of the Data Center for the July 15 payment; based on district ADM estimates as of July 10.
- **Multi-Year District Revenue spreadsheet** updated for FY 2020 and FY 2021 and posted to Data Center
- **Levy Limitation Report** will be posted by September 8, showing FY 2021 estimated revenues, aids and levies.
For FY 2020 and FY 2021 only, continues to fund the 4,000 seats currently expiring after FY 2019, in addition to the 3,160 permanent seats, for a total of 7,160 seats.

In addition, MDE is reallocating 171 unused seats for FY 2019 only to school districts that applied for FY 2019 aid and did not receive funding initially, but operated a program in FY 2019 meeting statutory requirements.

**Implementation:**

- Notice has been provided to each district and charter school with seats awarded for FY 2020 or receiving reallocated seats for FY 2019.
## Voluntary Pre-K (VPK)/School Readiness Plus (SRP) Districts Receiving One-Time Reallocation of Unused Seats for FY 2019

<table>
<thead>
<tr>
<th>Program Type</th>
<th>District #</th>
<th>District Name</th>
<th>School Name</th>
<th># Seats</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRP</td>
<td>272</td>
<td>Eden Prairie</td>
<td>Districtwide</td>
<td>60</td>
</tr>
<tr>
<td>SRP</td>
<td>659</td>
<td>Northfield</td>
<td>Districtwide</td>
<td>5</td>
</tr>
<tr>
<td>SRP</td>
<td>833</td>
<td>South Washington County</td>
<td>Armstrong Elementary</td>
<td>7</td>
</tr>
<tr>
<td>SRP</td>
<td>833</td>
<td>South Washington County</td>
<td>Hillside Elementary</td>
<td>11</td>
</tr>
<tr>
<td>SRP</td>
<td>834</td>
<td>Stillwater</td>
<td>Lily Lake Elementary</td>
<td>6</td>
</tr>
<tr>
<td>SRP</td>
<td>834</td>
<td>Stillwater</td>
<td>Lake Elmo Elementary</td>
<td>4</td>
</tr>
<tr>
<td>SRP</td>
<td>834</td>
<td>Stillwater</td>
<td>Brookview Elementary</td>
<td>2</td>
</tr>
<tr>
<td>SRP</td>
<td>739</td>
<td>Kimball</td>
<td>Kimball Elementary</td>
<td>4</td>
</tr>
<tr>
<td>SRP</td>
<td>2167</td>
<td>Lakeview</td>
<td>Lakeview Elementary</td>
<td>6</td>
</tr>
<tr>
<td>SRP</td>
<td>882</td>
<td>Monticello</td>
<td>Districtwide</td>
<td>16</td>
</tr>
<tr>
<td>VPK</td>
<td>712</td>
<td>Mountain Iron-Buhl</td>
<td>Merritt Elementary</td>
<td>18</td>
</tr>
<tr>
<td>SPK</td>
<td>578</td>
<td>Pine City</td>
<td>Pine City Elementary</td>
<td>14</td>
</tr>
<tr>
<td>VPK</td>
<td>625</td>
<td>St. Paul</td>
<td>Phalen Lake Hmong Studies</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Total</strong></td>
<td><strong>171</strong></td>
</tr>
</tbody>
</table>
Increased from 40% under current law to 50% in Pay 2020, 55% in Pay 2021, 60% in Pay 2022, and 70% in Pay 2023 and thereafter, of school district debt service levy on agricultural land (excluding the house, garage and one acre).

Includes all categories of general debt service levy – existing and new; voter approved and non-voter approved (including Long-Term Facilities Maintenance (LTFM)).

Implementation:

• Minnesota Department of Revenue calculates the annual aid by school district and notifies MDE by early July based on levy for the current calendar year;

• MDE pays out 90% in six equal installments on the 30th of each month from July-December, with a 10% final payment the following fall.
Final Payments for FY 2018

- Forecast article adjusts fiscal year 2019 appropriations (including final payments for FY 2018 and current payments for FY 2019) to match the February 2019 forecast amounts for each affected program.

- This eliminates proration of forecasted program aids for FY 2018 and FY 2019 that resulted from the veto of the 2018 omnibus budget bill.

Implementation:

- Final payments made on June 20 for forecasted aids that were being prorated, eliminating the FY 2018 proration of aids for special education LTFM, abatement and interdistrict desegregation transportation.
School Finance Trends and Issues
Special Populations as Percent of Total Public School Enrollment 2003-2019

<table>
<thead>
<tr>
<th>Year</th>
<th>Poverty (free/reduced-price lunch)</th>
<th>English learner</th>
<th>Special Education</th>
<th>Students of color and American Indian students</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>27.4%</td>
<td>6.1%</td>
<td>13.2%</td>
<td>18.9%</td>
</tr>
<tr>
<td>2007</td>
<td>30.9%</td>
<td>7.6%</td>
<td>14.0%</td>
<td>22.8%</td>
</tr>
<tr>
<td>2011</td>
<td>36.6%</td>
<td>7.7%</td>
<td>14.8%</td>
<td>25.7%</td>
</tr>
<tr>
<td>2015</td>
<td>38.3%</td>
<td>8.2%</td>
<td>14.9%</td>
<td>29.5%</td>
</tr>
<tr>
<td>2019</td>
<td>36.4%</td>
<td>8.3%</td>
<td>16.2%</td>
<td>34.3%</td>
</tr>
<tr>
<td>Year</td>
<td>Not Adjusted</td>
<td>Adjusted for Pupil Weight Change</td>
<td>Adjusted for Pupil Weight Change and Inflation (CPI)</td>
<td></td>
</tr>
<tr>
<td>------</td>
<td>--------------</td>
<td>----------------------------------</td>
<td>-----------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>4,601</td>
<td>4,966</td>
<td>7,225</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>4,601</td>
<td>4,966</td>
<td>6,864</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>4,974</td>
<td>5,368</td>
<td>6,968</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>5,124</td>
<td>5,530</td>
<td>6,826</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>5,124</td>
<td>5,530</td>
<td>6,628</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>5,224</td>
<td>5,638</td>
<td>6,457</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>5,831</td>
<td>5,831</td>
<td>6,528</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>6,067</td>
<td>6,067</td>
<td>6,624</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>6,312</td>
<td>6,312</td>
<td>6,594</td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>6,567</td>
<td>6,567</td>
<td>6,567</td>
<td></td>
</tr>
</tbody>
</table>
This chart shows the trend in the state average special education cross subsidy per student since 2003, not adjusted for inflation. There have been some ups and downs over the years, but overall the trend has been up. The most rapid increase occurred between 2003 and 2007, when the state total special education aid was capped without an inflation adjustment. Between 2007 and 2011, a significant increase in state special education aid and a one-time boost in federal special education aid dramatically lowered the cross subsidy, but when the one-time federal aid was not renewed, the cross subsidy went right back up. From 2013 through 2019 the average cross subsidy increased gradually, and the 2019 education bill froze the average cross subsidy per pupil for FY 20 and FY 21 at the FY 19 level of 820 per student, as shown in the solid blue line on the right side of the chart. Without the new legislation, the average cross subsidy would have increased to $899 in FY 21. While the 2019 legislative changes lowered the cross subsidy for later years, they were not sufficient to keep the cross subsidy from growing again in the FY 22 – FY 23 biennium. The projected state average cross subsidy for FY 23 is projected to be $904 per student, compared with $985 under the old law.
This chart shows the trend in the state average special education cross subsidy per student since 2013, adjusted for inflation. Between 2015 and 2019, the state average cross subsidy per ADM was essentially flat at about $850 when the comparison is done using inflation-adjusted dollars. And, with the increase enacted this year to hold the state average cross subsidy per ADM flat in current dollars, the average cross subsidy per ADM in inflation-adjusted dollars decreases from $856 to $820 between 2019 and 2021. However, with no additional improvements in the formula for FY 22 and later, the state average inflation-adjusted cross subsidy per student will increase to $863 by 2023.
Referendum and Local Optional Revenue per ADM
2019 End of Session

Fiscal Year Not adjusted for inflation

Adjusted for inflation (CPI) 2021 $
This chart shows the trend in E-12 education revenue by source since 1991. State aid is by far the largest funding source. It peaked at 75 percent of school revenue in 2003, when the uniform general education levy was eliminated. After that, it fell to 62 percent in 2009 and has since increased to 67 percent in 2021.

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>State Aid</td>
<td>56%</td>
<td>53%</td>
<td>62%</td>
<td>75%</td>
<td>62%</td>
<td>68%</td>
<td>67%</td>
</tr>
<tr>
<td>Property Tax</td>
<td>32%</td>
<td>35%</td>
<td>25%</td>
<td>12%</td>
<td>19%</td>
<td>19%</td>
<td>21%</td>
</tr>
<tr>
<td>Federal Aid</td>
<td>4%</td>
<td>4%</td>
<td>6%</td>
<td>6%</td>
<td>12%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
</tr>
</tbody>
</table>

E-12 Education Revenue by Source
All Funds – 2019 End of Session
The state share of operating referendum revenue has seen some big ups and downs over the years. The pattern has been for the state to improve equalization when the state share gets really low, followed by a gradual decrease in the state share as the impact of the improvement is eroded by inflation in the tax base. The state share was 24.7 percent in 2005, fell to 8.2 percent by 2011, increased to 22.4 percent in 2015, and is projected to fall to 9.6 percent by 2023. The increase in referendum equalization enacted in 2019 wasn't enough to significantly change the trend – for FY 2021, it only increased the state share from 11.9 percent under old law to 12.6 percent.
This chart shows the trend in long-term facilities maintenance revenue per student for the 25 large districts that previously qualified for alternative facilities revenue and all other districts in the state. Alternative facilities districts have long enjoyed access to deferred maintenance funding limited only by the ability and willingness of local school boards and taxpayers to fund the project costs, while other districts have had restrictive limits on how much could be raised for deferred maintenance without going to the voters. The LTFM program was designed to narrow this gap. Between 2017 and 2019, when LTFM was being phased in, the gap in per pupil funding between alternative facilities districts and other districts was narrowed considerably. But after 2019, the gap is projected to widen, as funding continues to increase for alternative facilities districts while the LTFM allowance is frozen for other districts.
• 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.
Consider a two-part strategy:

First, keep things from getting worse by:

• Maintaining the buying power of the basic formula by increasing the formula allowance by enough to cover inflation (currently about 2.2-2.3 percent per year);

• Maintaining the buying power of Local Optional Revenue by indexing the LOR allowance to the basic formula allowance; and

• Maintaining the current state share of referendum and LOR funding by indexing the equalizing factors to the state average Referendum Market Value/Pupil Unit (RMV/PU).
Second, improve adequacy and equity, and simplify general education funding by:

- Restoring the basic formula to the inflation-adjusted FY 2003 level by rolling LOR into the formula and converting the LOR levy into a uniform general education levy, which would be based on RMV.

- Restoring the state share of referendum funding to the FY 2016 level by increasing as well as indexing the equalizing factors used for referendum equalization to make up the ground lost to inflation since 2016.

- Simplifying equity revenue by rolling the $50 per pupil uniform allowance portion into the basic general education formula, and calculating the remaining equity revenue on a statewide sliding scale, eliminating the separate formulas for metro and rural districts.
• 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.
• Increase state special education aid by at least enough to prevent continued growth of the cross-subsidy in FY 2022 and later; buying down the cross-subsidy gradually over time.

• Target new funding to the districts with the greatest need by increasing the rate for cross-subsidy reduction aid.

• Further reduce the tuition billing rate paid by the resident school district from 80 percent to 70 percent, and phase out the hold harmless for charter schools, neutralizing the average impact on charter schools by adjusting other formulas where charter schools currently receive less than school districts (e.g., LOR, safe schools).

• Consider adding an equalized levy to fund a portion of the remaining cross-subsidy.
Facilities Funding
Funding Options for Discussion

Long Term Facilities Maintenance (LTFM)

• Increase the LTFM allowance to reflect the state average allowance of alternative facilities districts, and link the allowance to the general education formula allowance.

Debt Service Equalization

• Reduce the threshold to qualify for debt service equalization from 15.74% to 10% of Adjusted Net Tax Capacity (ANTC) and replace the two-tiered equalization formula with a single tier, equalized at 125% of the state average ANTC/PU, or

• Consider a school bond credit for homeowners
Other Funding
Funding Options for Discussion

Safe Schools Revenue

• Double the allowance from $36 to $72; equalize the levy at the same level as the LTFM levy; and extend funding to non-intermediate cooperative units; or

• Continue the one-time supplemental safe schools aid in future years.

Voluntary Prekindergarten and School Readiness Plus

• Continue the 4,000 seats restored for FY 2020 and FY 2021 on a permanent basis, and continue to expand the program statewide, targeting sites with a high concentration of poverty.
Thank you!

Tom Melcher

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651-582-8828