



School Finance Update

Back to School Conference

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Ten Minnesota Commitments to Equity

- 1. Prioritize equity.**
- 2. Start from within.**
- 3. Measure what matters.**
- 4. Go local.**
- 5. Follow the money.**
- 6. Start early.**
- 7. Monitor implementation of standards.**
- 8. Value people.**
- 9. Improve conditions for learning.**
- 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

Safe Schools Supplemental Aid

- 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.

Special Education Aid

Legislative Changes

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.

General Education Revenue

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.

Voluntary Pre-K/School Readiness Plus

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

Program Type	District #	District Name	School Name	# Seats
SRP	272	Eden Prairie	Districtwide	60
SRP	659	Northfield	Districtwide	5
SRP	833	South Washington County	Armstrong Elementary	7
SRP	833	South Washington County	Hillside Elementary	11
SRP	834	Stillwater	Lily Lake Elementary	6
SRP	834	Stillwater	Lake Elmo Elementary	4
SRP	834	Stillwater	Brookview Elementary	2
SRP	739	Kimball	Kimball Elementary	4
SRP	2167	Lakeview	Lakeview Elementary	6
SRP	882	Monticello	Districtwide	16
VPK	712	Mountain Iron-Buhl	Merritt Elementary	18
SPK	578	Pine City	Pine City Elementary	14
VPK	625	St. Paul	Phalen Lake Hmong Studies	18
Total				171

School Bond Agricultural Credit

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

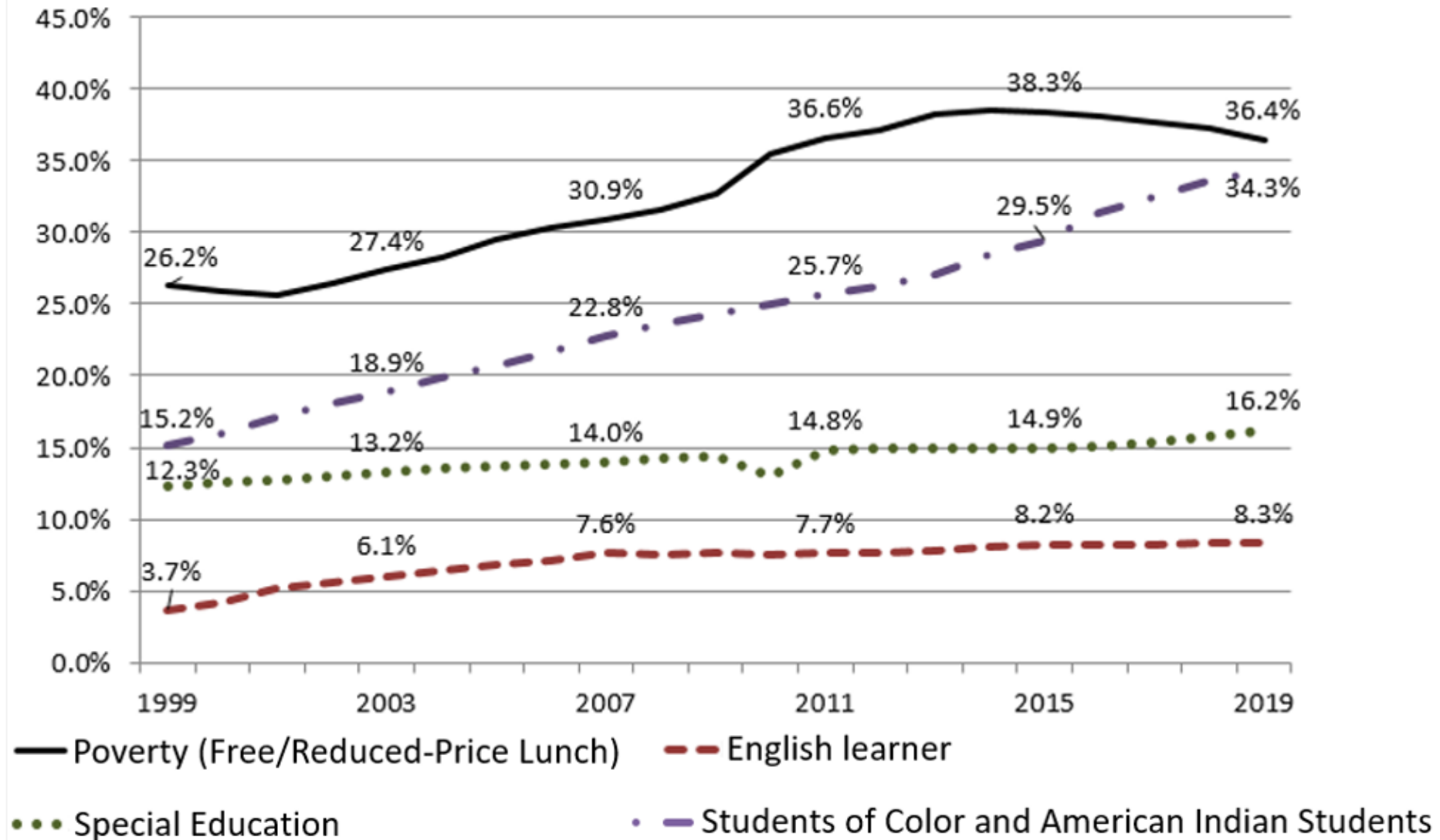
- Forecast article adjusts fiscal year 2019 appropriations (including final payments for FY 2018 and current payments for FY 2019) to match the February 2019 forecast amounts for each affected program.
- This eliminates proration of forecasted program aids for FY 2018 and FY 2019 that resulted from the veto of the 2018 omnibus budget bill.

Implementation:

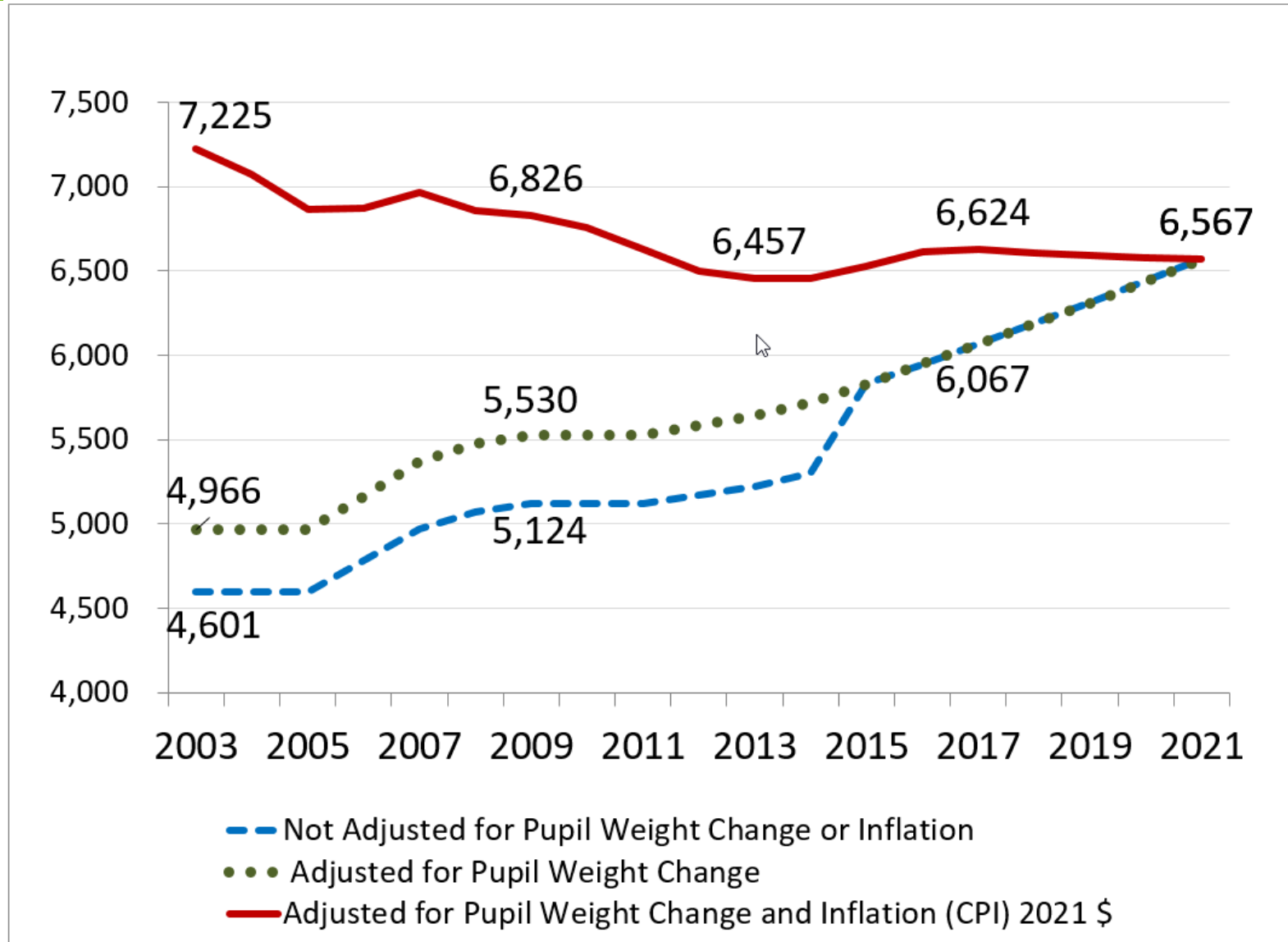
- Final payments made on June 20 for forecasted aids that were being prorated, eliminating the FY 2018 proration of aids for special education LTFM, abatement and interdistrict desegregation transportation.

School Finance Trends and Issues

Special Populations as Percent of Total Public School Enrollment 2003-2019

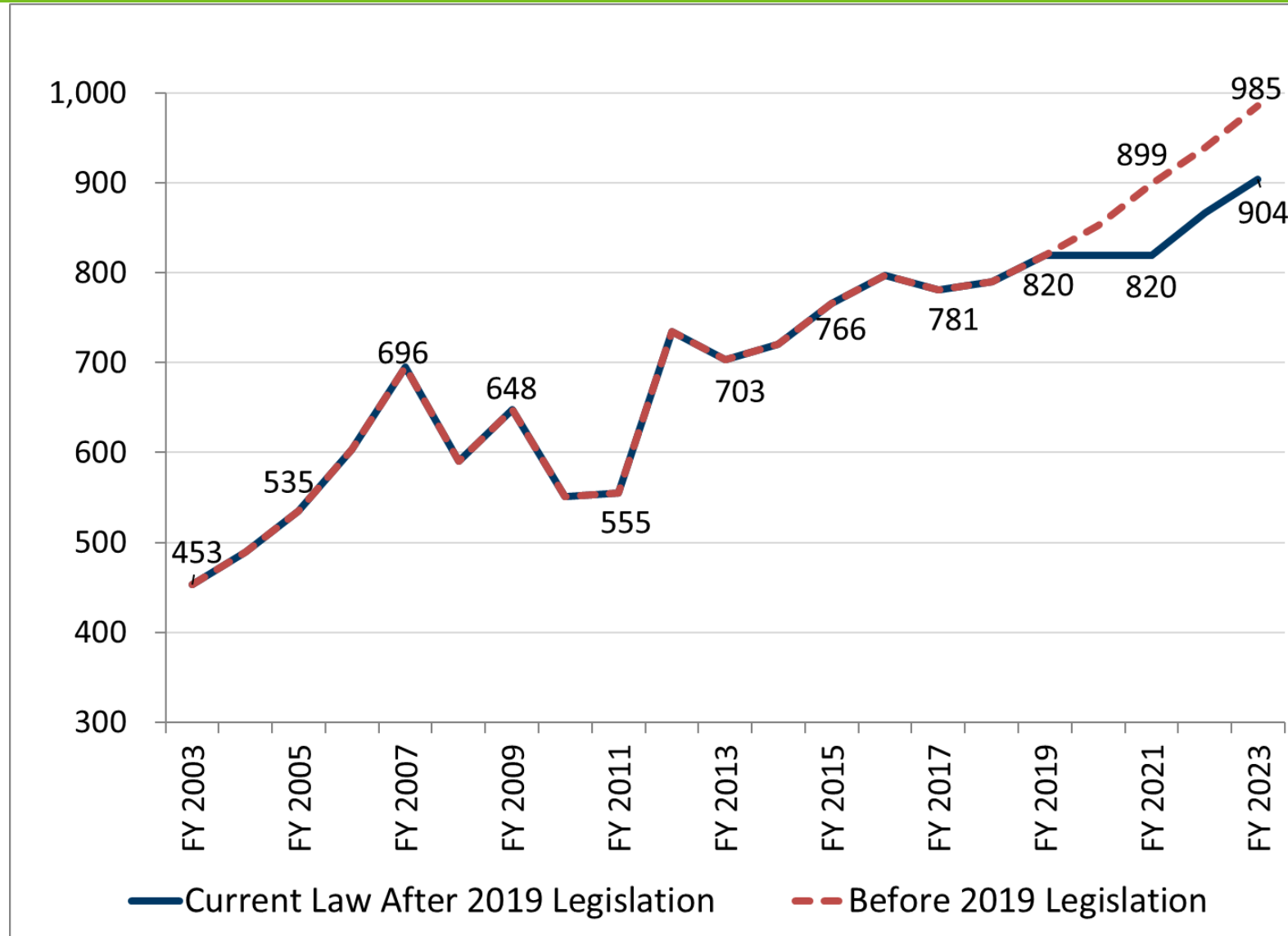


General Education Formula Adjusted for Pupil Weight Change and Inflation (CPI) 2019 End of Session



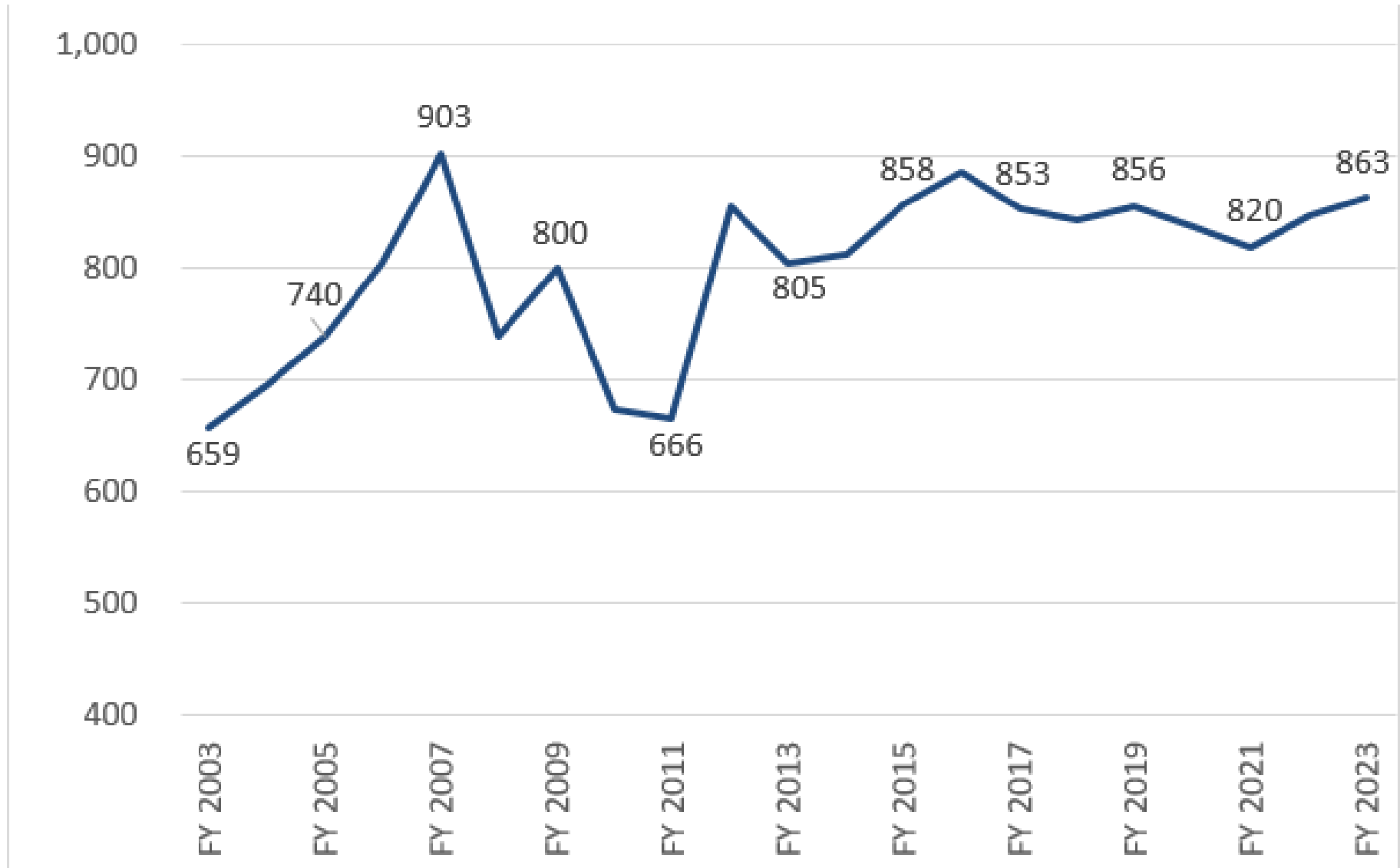
Special Education Cross Subsidy per ADM

Current Dollars – 2019 End of Session



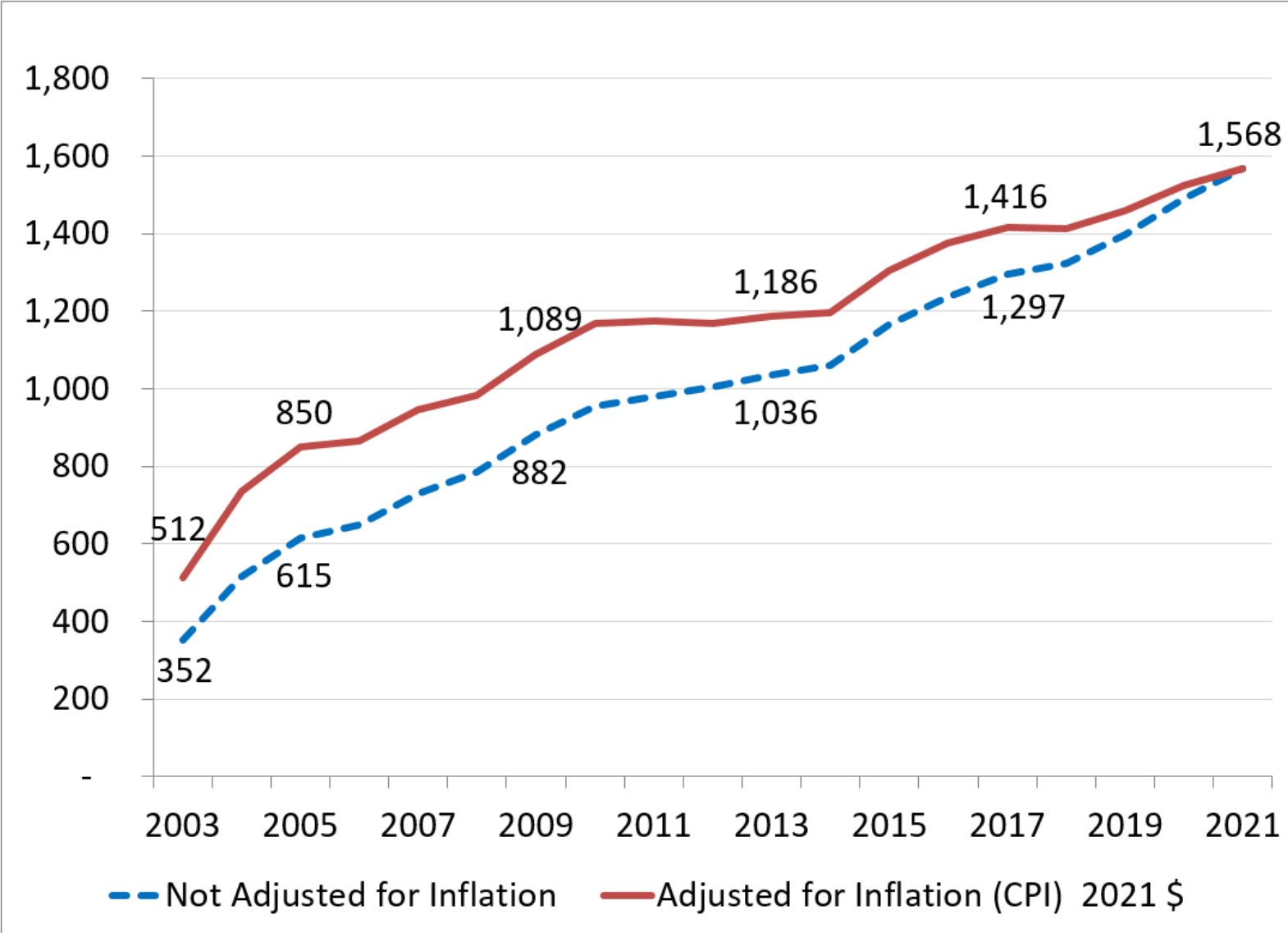
Special Education Cross Subsidy per ADM

Adjusted for Inflation using CPI (2021 Dollars) – 2019 End of Session



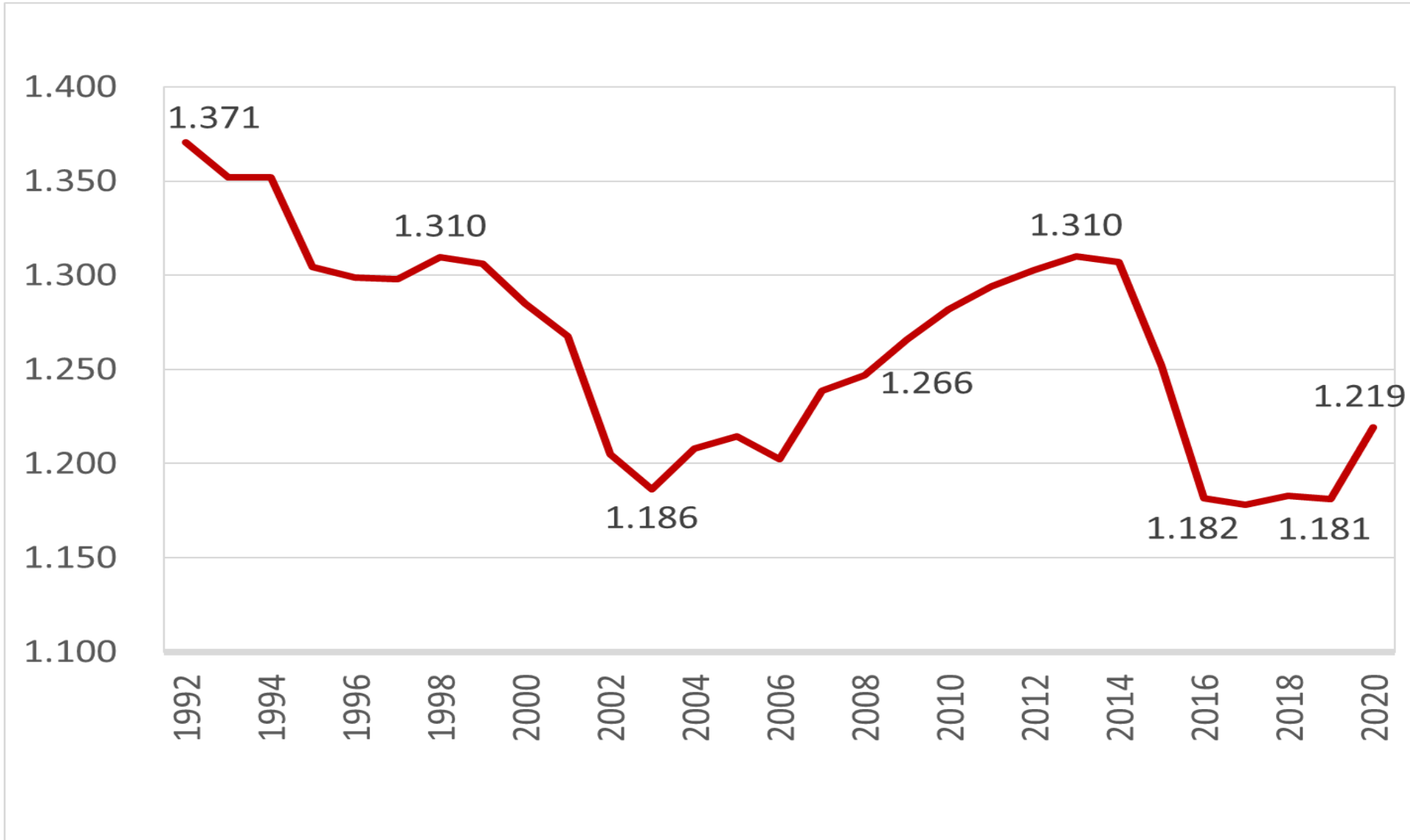
Referendum and Local Optional Revenue per ADM

2019 End of Session



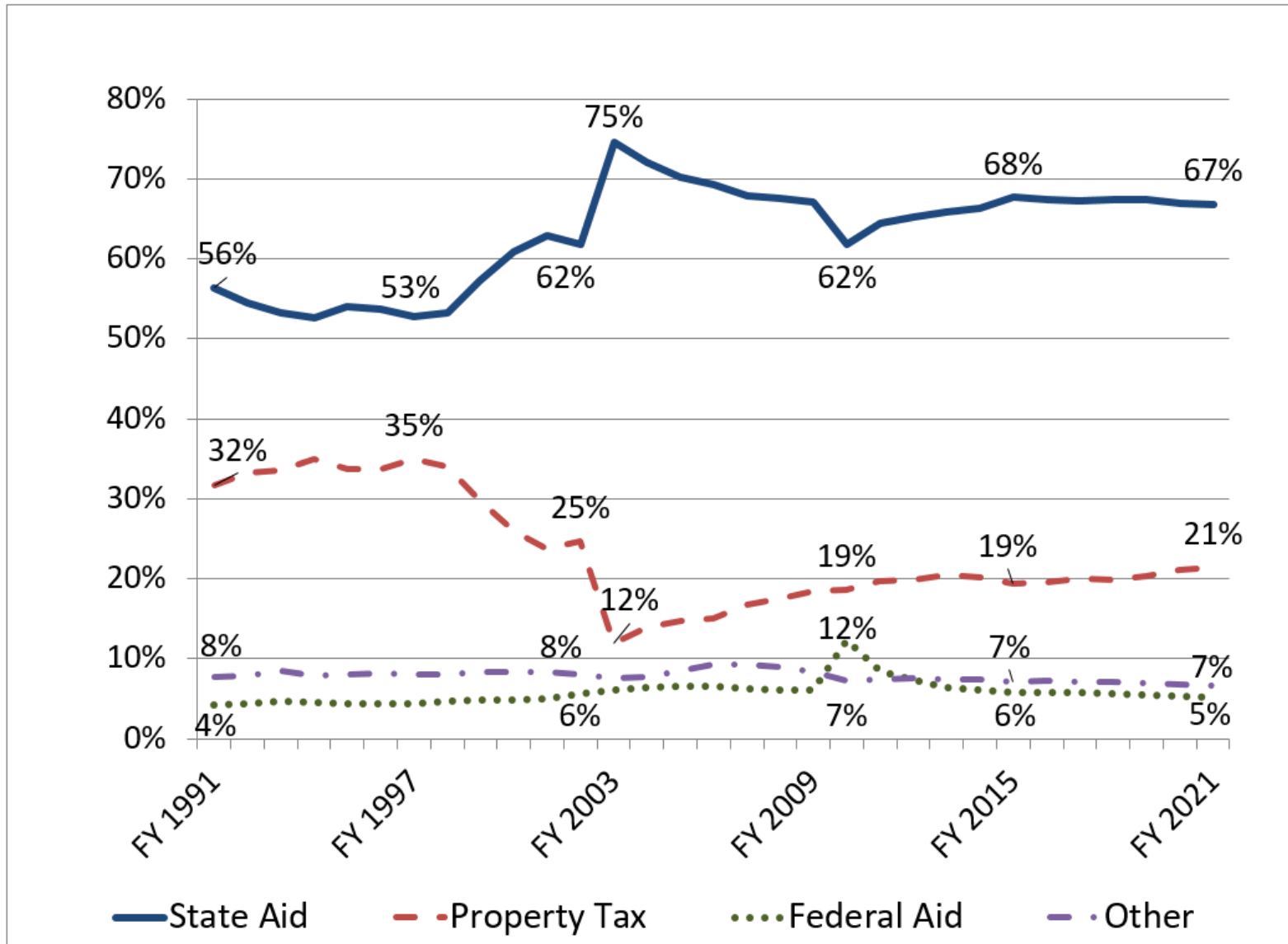
Disparity in Unrestricted General Revenue per Student

95th to 5th Percentile Ratio, November 2018 Forecast



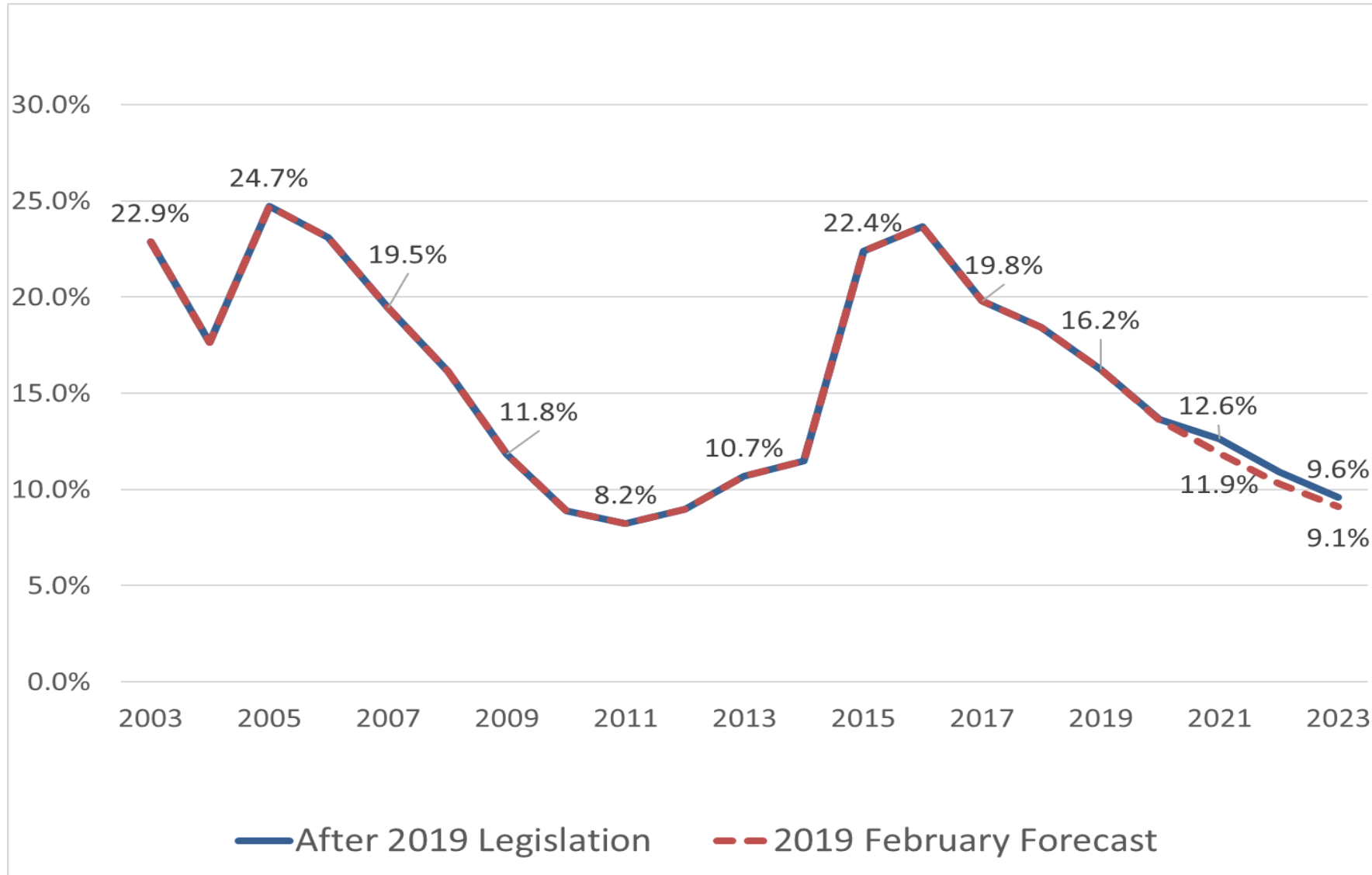
E-12 Education Revenue by Source

All Funds – 2019 End of Session



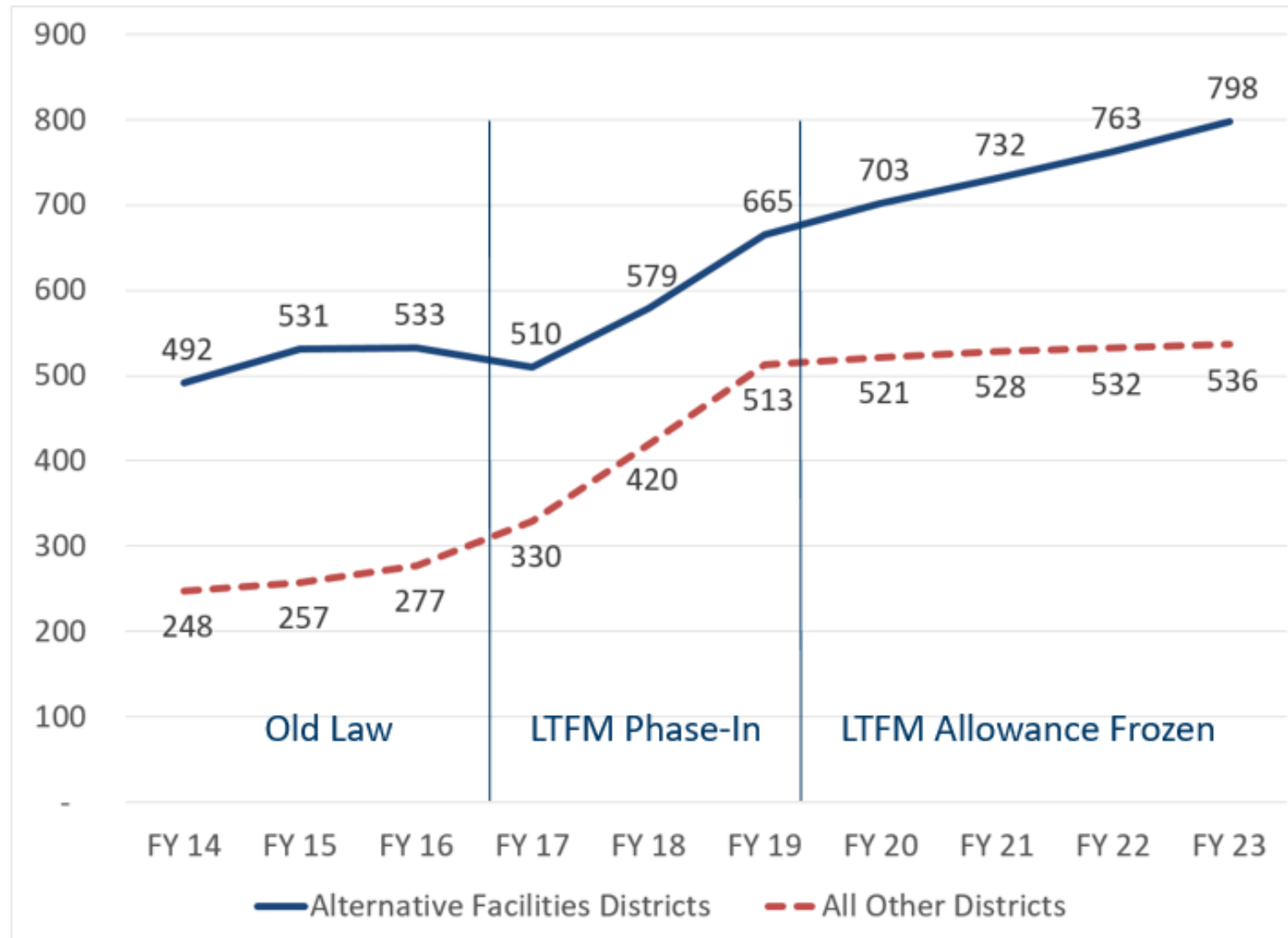
State Share of Referendum + Local Optional Revenue

End of 2019 Legislative Session: FY 2003-FY 2023



Long-Term Facilities Maintenance Revenue(LTFM)/ADM

Alternative Facilities Districts versus All Other Districts
February 2019 Forecast



General Education Revenue

Recap of Current Status

- 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.

General Education Revenue

Funding Options for Discussion

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).

General Education Revenue Funding Options for Discussion (2)

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.

Special Education Revenue

Recap of Current Status

- 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.

Special Education Revenue

Funding Options for Discussion

- 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.

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

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!

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