

# E-12 EDUCATION FUNDING UPDATE

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**Superintendents' Conference**  
**August 10, 2011**

## Topics for Discussion

### **2011 Education Finance Legislation:**

- Highlights
- How the budget impasse was resolved
- Details of the changes in education funding
- Fallout from the shutdown: school levy timelines

### **Funding Education for the Future:**

- Recommendations from the Commissioner's Working Group on School Finance

# Highlights of 2011 Education Finance Legislation

- **Significant increases in K-12 Education Revenues**
  - \$50 + \$50 on General Education Formula
  - New Literacy Aid
  - New Small Schools Aid
  - More compensatory aid for some districts
  - Special Education Growth Factor Remains at 4.6% per year
  - Average increase of \$65 / pupil for FY 12 and \$230 /pupil for FY 13

# Highlights of 2011 Education Finance Legislation

- **Significant Mandate Relief**
  - January 15 deadline & penalty repealed
  - 2% staff development requirement suspended for 2 more years
  - MOE requirement for licensed school support staff eliminated
  - Requirement to reserve \$3 / pupil of safe schools levy for licensed support staff eliminated
  - Uses of Operating Capital Revenue expanded to include vehicle leases and costs directly associated with closing a school facility
  - More flexibility for fund transfers in 2012 and 2013

# Highlights of 2011 Education Finance Legislation

- **More predictable cash flow**
  - State's authority to delay aid payments to school districts to avoid short-term borrowing was repealed (Minn. Stat. § 127A.46)

## Highlights of 2011 Education Finance Legislation

- **Slower cash flow as a result of the 60-40 payment shift**
- **Outlook for FY 14 – FY 15 budget is uncertain due to:**
  - Use of one-time money to balance FY 2012 - FY 2013 budget leaves \$1.9 billion shortfall in FY 2014 – FY 2015 budget
  - Integration funding repealed after FY 2013; replacement revenue is undefined

# State General Fund Budget

## End of 2011 Legislative Session

(\$ in millions)

	<u>FY 2012-13</u>	<u>FY 2014-15</u>
<b>Beginning Balance</b>	\$725	\$110
Revenues	34,448	35,406
Spending*	34,339	37,187
Balance before Reserves	110	(1,781)
Cash Flow Account	<u>95</u>	<u>95</u>
<b>Budget Balance</b>	<b>\$ 15</b>	<b>(\$1,876)</b>

\* Net spending after school shifts

## How the Budget Impasse was Resolved

On July 14, Governor Dayton agreed to accept GOP Offer of 6/30, which included:

- Bridging the \$1.4 billion gap between Governor and GOP proposed spending levels with:
  - School aid payment shift to 60-40 ( $\approx$  \$700 M)
  - Issue tobacco bonds ( $\approx$  \$700 M)
- \$50 /year on general education formula

With the following conditions added:

- GOP drops major policy issues
- GOP drops 15% across the board cut in number of state employees from all funding sources
- Bonding bill of at least \$500 M

## How the Budget Impasse was Resolved

- The global agreement between Governor Dayton and legislative leaders established a framework for resolving the budget impasse, but left many details to be determined.
- For E-12 Education, the framework set by leadership included:
  - 60-40 Payment Shift
  - \$50 + \$50 on General Education Formula
  - \$132 million spending target over base
  - Zero levy target
  - Policy proposals from 6/29/11 GOP Offer off the table unless mutually agreed to

## Negotiating the Details: Governor's Position For E-12 Education Funding

- Linkage between compensatory revenue and basic formula must be retained when \$50 + \$50 added to formula
- Maintain special education growth factor at current law level (4.6%)
- Maintain integration funding
- Provide funding for early childhood education including quality rating system (QRIS)
- Provide funding based on student performance, focused on growth in reading and math at all grade levels
- Provide stable funding for all districts -- avoid major redistributions among districts that would create winners and losers

## Negotiating the Details: Legislative Position For E-12 Education Funding

- Delink compensatory revenue from basic formula
- Reduce special education growth factor (2% per year in conference report)
- Eliminate integration funding in current biennium
- Scholarships / Vouchers
  - Early Childhood
  - K-12 students in low performing schools in Mpls, St Paul, Duluth
  - Early Graduation
- Provide funding based on student performance, focused on proficiency and growth in reading at Grade 3
- Increase funding for small schools
- Increase compensatory funding for large suburban districts with relatively low poverty concentrations

## DETAILS OF THE CHANGES IN E-12 FUNDING CASH FLOW: Aid Payment Shifts

- 60-40 payment schedule begins in FY 2012
- July 15 payment (during shutdown) was based on 90-10 pay schedule
- July 30 payment was adjusted to reflect cumulative amount due under 60-40 schedule
- Under MS 127A.45, Subd. 7b, districts and charter schools in Statutory Operating Debt (SOD) will receive an advance final payment on June 20 to bring total general education aid for the year up to 90% of aid entitlement, but not to exceed the amount of SOD in the school or district. Limited to \$7.5 million statewide.
- Under M.S. 16A.152, Subd. 2, aid payment shift will be repaid when state budget improves
  - (after state cash flow account balance reaches \$350 M, state budget reserve reaches \$653 M, and aid payment schedule is restored to 90-10)

## CASH FLOW

### Aid Payment Shifts – Charter Schools

- 60-40 applies to charter schools as well as school districts
- Exception allowing Metro Deaf to receive 90-10 payments for state special education aid was extended to include Lionsgate.
- Current Payments to charter schools accelerated - the 60% current payments are spread over 16 payments, from July – February. No state aid payments to charter schools in March – June.
  - It's important for charter schools to submit accurate ADM estimates, lease aid data and special education budget information early in the fiscal year and to keep this data up-to-date!
- Final payments to charter schools accelerated – 75% of final payment will be paid July 15<sup>th</sup> (July 30<sup>th</sup> this year due to state shutdown); remaining 25% paid on October 30.

## CASH FLOW

### Property Tax Shift

- Property tax shift remains at 48.6% for FY 2011 and later
- Tax shift calculation methodology changed to use gross levies before state paid tax credits are deducted.
  - Enables MDE to calculate final tax shift amounts much earlier
  - Increases state total reduction for tax shift by \$14 million
  - The additional aid reduction due to the methodology change will occur with the final payment for FY 2011 on October 30, 2011
- Clarifies that, with the exception of the Oct 30 adjustment for FY 2011, aid reductions for tax shift are to be taken as close to the end of the fiscal year as possible.
- Tax shift will be repaid when state budget improves
  - (after state cash flow account balance reaches \$350 M, state budget reserve reaches \$653 M, and aid payment schedule is restored to 90-10)

## CASH FLOW School Shift Summary

Aid Payment Shift @ 60-40 (vs 90-10)	\$2.195 Billion
Property Tax Shift (@ 48.6% of Gross Levy)	\$595 Million
Total School Shift	\$2.790 Billion

## FY 2012 REVENUE / ADM CHANGE FROM BASE

### By Strata

	Basic	Endow	All Other Changes	Total
STATE TOTAL	58	0	8	65
MPLS & ST PAUL	57	-3	18	71
OTHER METRO, INNER	58	0	5	63
OTHER METRO, OUTER	58	0	3	60
NONMET >=2K	58	0	6	63
NONMET 1K-2K	58	0	6	64
NONMET < 1K	58	0	12	70
DISTRICT TOTAL	58	-1	7	64
CHARTER TOTAL	57	12	12	82

## FY 2013 REVENUE / ADM CHANGE FROM BASE

### By Strata

	Basic	One Time Compens.	Endow	Small Schools	Literacy Aid	Charter Lease	All Other Changes	Total
STATE TOTAL	115	19	0	19	58	-1	19	230
MPLS & ST PAUL	114	0	-7	0	63	0	53	222
OTHER METRO, INNER	116	20	1	0	56	0	16	208
OTHER METRO, OUTER	116	45	0	0	58	0	8	227
NONMET ≥ 2K	115	11	-1	0	53	0	16	195
NONMET 1K-2K	116	0	0	0	56	0	18	190
NONMET < 1K	116	0	0	186	66	0	28	396
DISTRICT TOTAL	115	20	-1	20	58	0	18	230
CHARTER TOTAL	114	0	25	0	58	-22	37	212

## Detailed Revenue Projections by District are available on MDE Web Site

- Look-up table showing old law and new law revenues for FY 12 and FY 13 for individual districts by funding category is included at spreadsheet located in Program Finance section of Web Site under Forecasts & Governor's Budget / End of Session:



[Revenues Under the K-12 Education Act](#) 3Mb (7/27/2011)

2011 1st Special Session, Chapter 11 - July 27, 2011

- What-if Spreadsheet showing details of general education revenue, aid and levy for FY 2012 for each districts are also available in the Program Finance Section of the MDE web site under General Education / Interactive Projection Models

## GENERAL EDUCATION REVENUE Formula Allowance

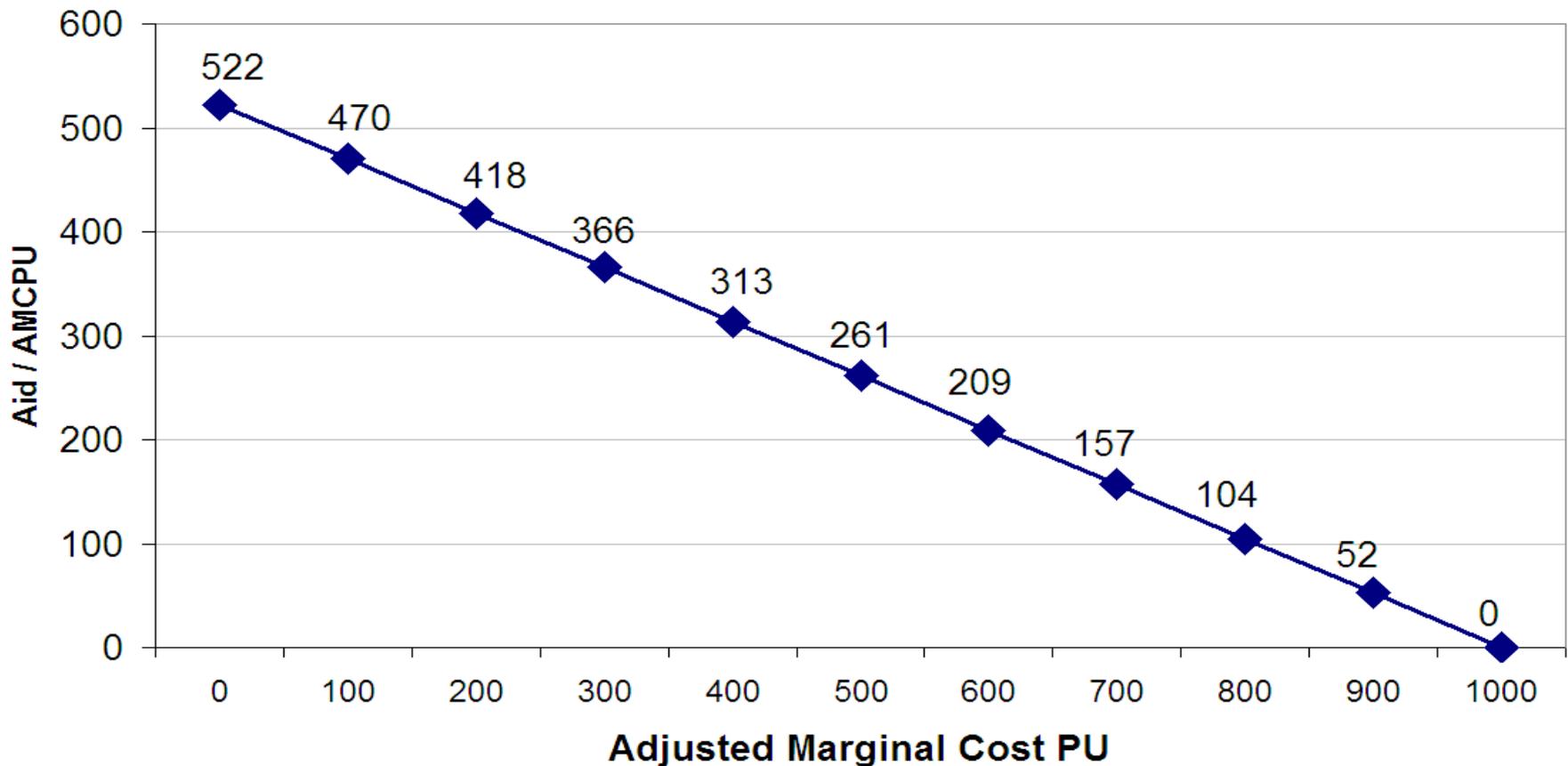
- FY 2012: \$50 increase (1%) to \$5,174
- FY 2013: Additional \$50 increase (1%) to \$5,224
- Linkages Remain Intact
  - Compensatory
  - Sparsity
  - Transportation Sparsity
  - Nonpublic Pupil / Nonpublic Transportation
  - Tribal Contract

# GENERAL EDUCATION REVENUE

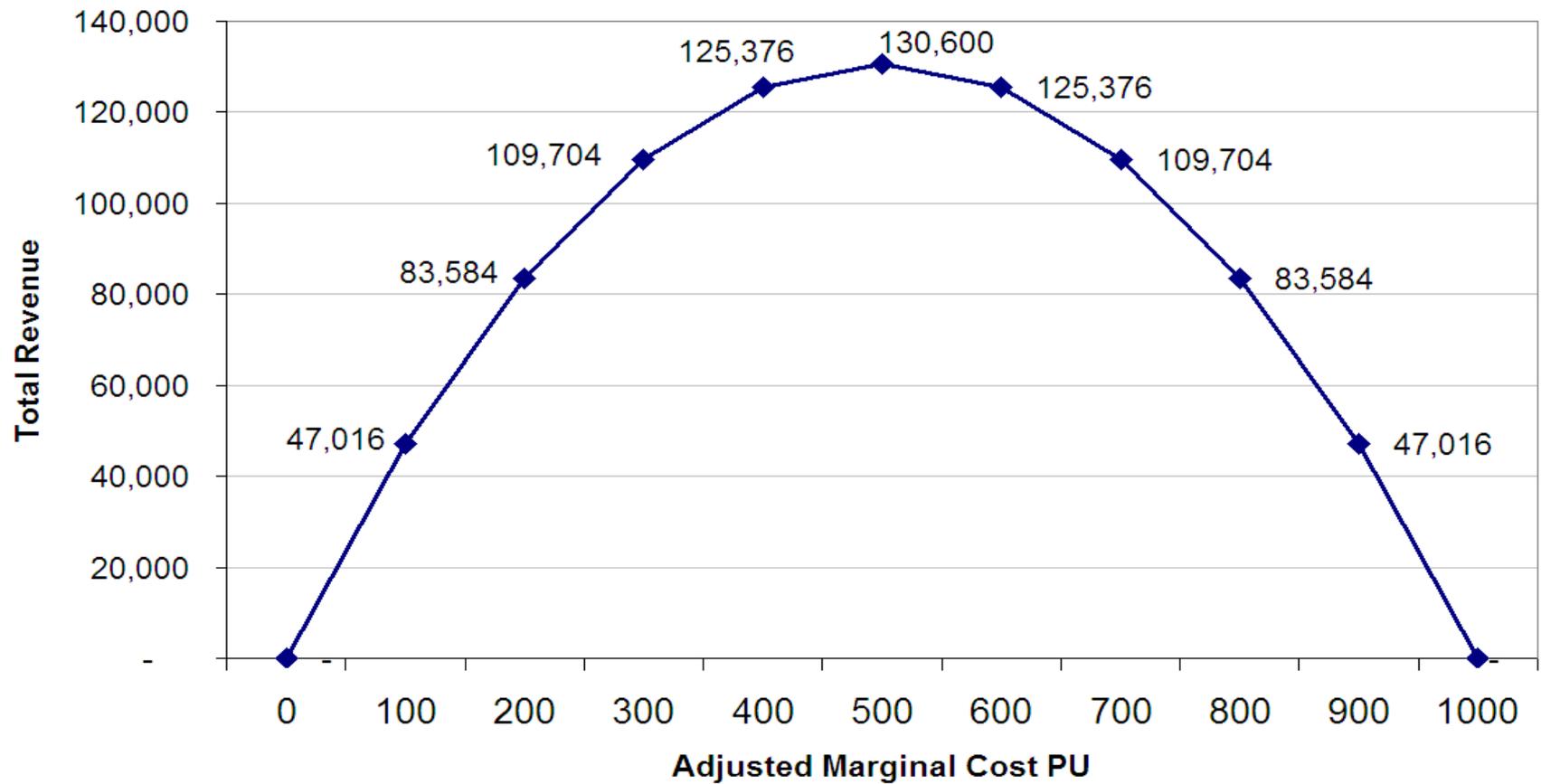
## Small Schools Revenue

- New component of general education revenue, beginning in FY 2013. Funded with open & standing appropriation (no proration).
- School districts with fewer than 1,000 AMCPU qualify for revenue on a sliding scale:
  - $\text{Allowance} / \text{AMCPU} = \$522.40 \times (1,000 - \text{AMCPU}) / 1,000$
- Charter schools are not eligible for this revenue.

## Small Schools Revenue / AMCPU FY 2013 and Later



## Total Small Schools Revenue FY 2013 and Later



## Compensatory Pilot Project Formula Aid

- One-time aid for FY 2013.
- The 20 largest districts in the state are eligible for this one-time aid if their regular compensatory revenue per compensatory pupil unit (free +  $\frac{1}{2}$  of reduced price lunch count) is less than \$1,400 per compensatory pupil unit. The aid equals the amount needed to bring the district's compensatory aid up to the \$1,400 level.
- This revenue must be used for basic skills purposes as defined in Minn. Stat. §126C.15, subdivision 1. The allocation by building is to be determined locally.

## Compensatory Pilot Project Formula Aid

		Current Compensatory/ Adj Count (Free + 1/2 Red.)	Additional / Adj Count (Amount Under \$1,400)	Estimated Gross Revenue
194	LAKEVILLE PUBLIC SCHOOL DISTRICT	454	946	1,127,115
284	WAYZATA PUBLIC SCHOOL DISTRICT	610	790	1,077,014
834	STILLWATER PUBLIC SCHOOL DISTRICT	613	787	948,994
112	CHASKA PUBLIC SCHOOL DISTRICT	620	780	1,049,826
833	SOUTH WASHINGTON COUNTY SCHOOL DISTRICT	701	699	1,654,935
272	EDEN PRAIRIE PUBLIC SCHOOL DISTRICT	781	619	967,594
196	ROSEMOUNT-APPLE VALLEY-EAGLE LAKE	799	601	2,955,111
728	ELK RIVER PUBLIC SCHOOL DISTRICT	840	560	1,488,960
11	ANOKA-HENNEPIN PUBLIC SCHOOL DISTRICT	1,115	285	2,940,039
621	MOUNDS VIEW PUBLIC SCHOOL DISTRICT	1,145	255	631,677
535	ROCHESTER PUBLIC SCHOOL DISTRICT	1,300	100	502,653
191	BURNSVILLE PUBLIC SCHOOL DISTRICT	1,383	17	58,681

## Compensatory Pilot Project Formula Aid

	Large Districts Not Eligible (Current Aid > \$1,400)	Current Compensatory/ Adj Count (Free + 1/2 Red.)	Additional / Adj Count (Amount Under \$1,400)	Estimated Gross Revenue
622	NORTH ST PAUL-MAPLEWOOD S	1,401	-	0
271	BLOOMINGTON PUBLIC SCHOOL	1,578	-	0
279	OSSEO PUBLIC SCHOOL DISTRICT	1,672	-	0
281	ROBBINSDALE PUBLIC SCHOOL D	1,719	-	0
742	ST. CLOUD PUBLIC SCHOOL DIST	1,836	-	0
709	DULUTH PUBLIC SCHOOL DISTRI	1,859	-	0
1	MINNEAPOLIS PUBLIC SCHOOL D	2,490	-	0
625	ST. PAUL PUBLIC SCHOOL DISTRI	2,549	-	0

## Endowment / Permanent School Fund

Effective with March 2012 Payment:

- Charter schools become eligible for payments
  - Charter schools will receive about \$12 /ADM in FY 12 and about \$25/ADM in FY 13
- Payment basis changed from Resident ADM to Adjusted ADM
  - Districts with a net gain of students under open enrollment will receive more; districts losing students under open enrollment will receive less.

## Sparsity Revenue - Districts Closing Facilities

- Expands the sparsity revenue grandfather to cover decreases caused by neighboring school districts' decisions to close or relocate school facilities
- Removes requirement that school districts file a resolution to close a school and receive an adjustment to their sparsity revenue 60 days prior to the start of the fiscal year.
- ISD 356, Lancaster made eligible for revenue to offset the loss of sparsity revenue due to a school closing in the Kittson Central school district, beginning FY 12
- ISD 118, Northland, eligible for closed school sparsity revenue despite missing deadline, effective for FY 2011 .

## Early Graduation - Scholarships

- Beginning FY 2012, early graduation achievement scholarship program provides higher education scholarships:
  - \$2,500 for graduation one semester early,
  - \$5,000 for graduation 2 semesters early,
  - \$7,500 for graduation 3 or more semester early
- Allows the student to use the scholarship at any accredited higher education institution, inside or outside of Minnesota.
- Early graduation military service award program provides cash awards to students who graduate early and enter the military – same amounts as above

## Early Graduation – Revenue Reduction to LEAs

- Beginning in FY 2012, school districts and charter schools will no longer generate pupil units and associated funding for mid-year graduates who participate in one of these programs.
- Students who plan to participate will be asked to notify MDE as soon as possible.
- MDE will adjust pupil units for mid-year graduates if notified before final payments are calculated for the school year of early graduation
- If notified later, MDE will make adjustment to general education aid and general fund levies for the year in which the notice is received, based on the district's aid and levy per pupil unit for pupil-driven formulas for the school year in which the student graduated mid-year.

## Other General Education Revenue Changes:

- January 15 teacher contract deadline and penalty is eliminated.
- Training & Experience Aid repealed effective for FY 2012
- Albert Lea added to list of districts receiving compensatory revenue pilot project aid @ \$150,000, beginning FY 2012

## Uses of Revenue

- Two percent staff development set-aside requirement suspended for two more years (FY 12 & FY 13).
- Maintenance of effort requirement for licensed school support personnel eliminated.
- Requirement to reserve \$3 per pupil of the safe schools levy proceeds for licensed school support staff eliminated.

## Uses of Revenue

- Uses of Operating Capital Revenue expanded to include the costs of leasing vehicles and the costs directly associated with closing a school facility, including moving and storage costs.
- Clarifies that cooperatives are required to allocate compensatory revenue to the school site generating the revenue in the same manner as school districts
- Amends definitions under the nonpublic pupil aid statute to include electronic books and other materials delivered electronically in the in the definition of textbooks and individualized instructional materials.

## Fund Transfers

- During fiscal years 2012 and 2013 only, authorizes a school district to transfer money from one fund or account to another if the following conditions are met:
  - The transfer must not increase state aid obligations or increase local property taxes;
  - Transfers cannot be made from the community service fund or the food service fund under this section;
  - The school board must adopt a resolution stating that the transfer will not diminish instructional opportunities for students;
  - The district must apply to the Commissioner to make the transfer. The application must include the amount to be transferred and the funds/accounts involved. It must be signed by the superintendent and approved by the school board.

## Length of School Year

- Replaces length of school year requirement based on days in 1997 calendar with a minimum number of hours for student instruction:
  - 425 hours for kindergarten (equivalent of 170 days @ 2.5 hours)
  - 935 hours grades 1 - 6 (equivalent of 170 days @ 5.5 hours)
  - 1,020 hours grades 7 -12 (equivalent of 170 days @ 6 hours)
- Hours of instruction excludes all meal times, e.g., breakfast, lunch, but includes a supervised recess immediately before or after lunch for elementary students and includes passing time for secondary students.
- Clarifies that this section does not supersede the commissioner's approval authority of a four-day school week under section 124D.126.

## Concurrent Enrollment / PSEO

- Allows 9<sup>th</sup> & 10<sup>th</sup> grade students to enroll in college in the schools classes if, after all the 11<sup>th</sup> and 12<sup>th</sup> grade students have applied, more students are needed to offer the course.
- Expands eligibility for concurrent enrollment program aid to include technical courses within a recognized career and technical ed program
- Directs districts to provide information on postsecondary enrollment options to students in eighth and ninth grade.
  - Note: Access to PSEO for 9<sup>th</sup> and 10<sup>th</sup> graders is limited to college in the schools, and only when more students are needed to offer a course after 11<sup>th</sup> and 12<sup>th</sup> grade students have applied (see above).
- Limits the number of academic years ninth and tenth grade students may enroll in postsecondary courses for secondary credit. Students first enrolling in grade 9 are limited to 4 years; students first enrolling in grade 10 are limited to 3 years.

## Literacy Incentive Aid

- Begins FY 2013
- Includes Proficiency Aid and Growth Aid
- Proficiency aid =  $\$85 \times \text{school's enrollment on October 1 of the previous year} \times \text{percent of third graders meeting or exceeding proficiency on the third grade reading MCA, averaged across the previous three test administrations (FY 10, 11 \& 12 for FY 13 aid)}$ .
- Growth aid =  $\$85 \times \text{school's enrollment on October 1 of the previous year} \times \text{percent of fourth graders making medium or high growth on the reading MCA, averaged across the previous three test administrations}$ .
- For FY 2013 only, state total aid is capped at \$48,585,000. No proration is anticipated, but will depend on 2011 & 2012 test results.

## Literacy Incentive Aid – Example Calculation

- In 2010:
  - 80% of 3<sup>rd</sup> graders were proficient in reading on MCAs
  - 75% of 4<sup>th</sup> graders made medium or high growth in reading on MCAs
- Example calculations:
  - Assume state average proficiency & growth percents from above
  - Assume 400 students enrolled in the school on prior October 1
  - Proficiency Aid =  $\$85 \times 400 \times 80\% = \$27,200$
  - Growth Aid =  $\$85 \times 400 \times 75\% = \underline{\$25,500}$
  - Total Literacy Aid =  $\$52,700$
  - In the example, the aid comes to \$132 per student enrolled at the school ( $\$52,700 / 400$  students)

## Literacy Incentive Aid - Notes

- Includes district schools and charter schools
- Only those schools enrolling students in grades 3 or 4 and with MCA test results from the prior year generate revenue for the district or charter school.
- Schools with a broader grade span (e.g., K-8 elementaries) generate more with a given set of test results than schools with a narrower grade span (e.g., K-5 elementaries). This is probably an unintended consequence and may be adjusted down the road.
- While aid is generated using school level data, there is no requirement for funds to be spent at the school generating the revenue.
- The aid may be used for any general fund purpose.

## Integration Aid

- The current integration funding formula remains in place for FY 2012 and FY 2013. Districts will still be required to submit budgets for approval to MDE.
- Integration revenue statute is repealed beginning in FY 2014
- The current integration rule remains in effect with no sunset.
- Interdistrict desegregation transportation funding remains in the base for FY 2014 and later
- Magnet school grants are eliminated, beginning in FY 2012.
- School district levy limits for taxes payable in 2013 will include an amount equal to the district's certified integration levy for taxes payable in 2012.

## Integration Aid

The base budget for FY 2014 includes:

- Funding to cover the final payment for FY 13
- Funding to cover the 31% of FY 2014 integration aid for cities of the first class that is paid on July 15 and is recognized early (in FY 2013)
- Funding sufficient to cover 60% of the projected old law integration aid for FY 2014

The base budget for FY 2015 includes:

- Funding sufficient to cover 40% of the projected old law integration aid for FY 2014, plus 60% of the projected old law integration aid for FY 2015

## Integration Revenue Replacement Advisory Task Force

- Directs the Commissioner to convene a 12-member advisory task force to develop recommendations for repurposing integration revenue funds to create and sustain opportunities for students to achieve improved educational outcomes.
  - 6 members appointed by the Commissioner,
  - 3 members appointed by the House Speaker,
  - 3 members appointed by the Senate.
- Requires the task force to consider how to effectively narrow and close the academic achievement gap and foster students' academic success, among other things.

## Integration Revenue Replacement Advisory Task Force

- Requires the Commissioner to submit a task force report to the legislature by February 15, 2012, recommending how best to allocate funds previously allocated as integration revenue funds in order to achieve improved educational outcomes for students.
- Specifies that the funding allocation for the new program should ensure funding stability for districts between the current integration program and the new program.
- The funding allocation for the new program must be approved and appropriated by the Legislature.

## Homestead Market Value Credit

### Current credit:

- 0.4% of the first \$76,000 of market value, minus 0.9% of market value over \$76,000
- (maximum credit is \$304 for a \$76,000 homestead)
- Provides \$57.6 million for school districts in FY 2012
- The credit is repealed effective for taxes payable in 2012

## Homestead Market Value Exclusion

- To neutralize the impact of the credit repeal on homeowners, a portion of each homestead's market value is excluded in determining the net tax capacity-based taxes.
- The exclusion of market value is equal to:
  - For homes valued up to \$76,000: 40% of value;
  - For homes valued above \$76,000: \$30,400 minus 9% of the valuation over \$76,000, which phases down to zero for homes valued over \$413,800.
- The Commissioner of Education is directed to adjust tax rates and equalizing factors for levies based on ANTC to neutralize the impact on education aids and levies.
- This will not impact referendum market value-based taxes.

## Career and Technical Education Levy

- Beginning with taxes payable in 2012, increases the career and technical education levy to the greater of \$80 times the district's average daily membership (ADM) in grades 9 through 12, or 35 percent of approved expenditures
  - (instead of the *lesser* of \$80 times the district's ADM in grades 10-12 or 25 percent of approved expenditures).
- Limits the total statewide levy to not more than \$17,850,000 for taxes payable in 2012, \$15,520,000 for taxes payable in 2013 and \$15,545,000 for taxes payable in 2014 and later. Calls for the 35% rate to be reduced as needed to meet the caps.
- MDE is seeking clarification from the legislature on implementation of this levy, as the new formula generates more than \$19 million of levy authority, even if the 35% rate is reduced to zero.

## Charter School Funding

- Charter School Lease Aid grandfather provision is eliminated beginning in FY 2013.
- Charter school start-up aid is repealed beginning in FY 2013. Schools that opened in FY 2011 will receive aid for FY 2012, but new schools opening in FY 2012 will not receive aid.

## Special Education Funding

- Special education-regular and excess cost aid growth factors remain as in current law (4.6% special education regular; 2% excess cost.)
- For nonresident of Minnesota placed in a Minnesota residential facility, declares that a school district is not required to provide educational services to a student if the student does not have an individualized education program and there is no tuition agreement with the placing authority to pay the student's education costs.
- Clarifies that the Commissioner is authorized to designate the district of residence if there is a dispute between school districts regarding residency.
- Allows a parent to submit an application for an eligible child with disabilities to the Minnesota Academy for the Deaf or the Minnesota Academy for the Blind for a 60- to 90-day trial placement.

## Third Party Reimbursement

- Clarifies that for children enrolled in medical assistance or MinnesotaCare, a district must provide an initial and then annual notice to the parent of a child with disabilities of the district's intent to seek IEP-MA revenue.
- The initial notice must comply with IDEA and MN Statutes.
- Clarifies that third party revenue must be used for students with IEPs.

## Facilities and Technology Funding

- Streamlines application procedures for school districts to apply for health and safety revenue; clarifies health & safety statute.
- Capital project levy referendum ballot language for renewals with no change in tax rate to indicate that voting yes would renew an existing capital projects referendum that is scheduled to expire.
- Authorizes building lease levy to finance building improvements for districts that are members of the “Technology and Information Education Systems” (TIES) joint board. Limits the total levy authority for participating districts to \$632,000 for taxes payable in 2012. No levy authority for taxes payable in 2013 and later.

## Facilities and Technology Funding

- Makes Independent School District No. 284, Wayzata, eligible for the alternative facilities revenue program, beginning with taxes payable in 2012.
- Authorizes a school district that received a capital loan prior to January 1, 1997, to repay the full outstanding original principal on its capital loan prior to July 1, 2012, to satisfy its obligation to the state of Minnesota.

## Libraries

- Removes the maintenance of effort requirements of cities and school districts for a library jointly operated by a city and school district.
- Makes this section effective retroactively to fiscal year 2011 and later.

## Community Education

- Allows a school board of a school district with fewer than 6,000 residents, instead of 2,000 residents, to identify a person with a valid Minnesota superintendent license to serve as the community education director instead of a licensed community education director serving in that position. Deletes authority for a person with a principal's license to serve as community education director, but grandfathers in principals serving as a community education director on June 1, 2011.
- Reduces the program growth factor for Adult Basic Education (ABE) from 1.03 to 1.02.

## Student Transportation

- Broadens a school district's pupil transportation authority for students attending area learning centers by allowing the district to transport area learning center pupils between buildings if space exists on an existing bus.
- Includes transportation of pupils for a curricular field trip activity on a school bus with a power lift when the lift is required by the student's disability or section 504 plan in the definition of "transportation services for pupils with disabilities," making this transportation eligible for state special education aid.
- Deletes cost per hour and cost per route from the options used to allocate costs among transportation categories.
- Authorizes an exemption from standard cost method for districts that contract for transportation services when certain criteria are met, including:
  - District bids contracts separately for regular/excess, special and non-authorized transportation;
  - District receives bids from more than one vendor for these categories;
  - Cost per mile does not vary by more than 10% among categories.

## State Agency Budgets

- MDE budget reduced \$991,000 (5%) each year
  - Reflects Governor's recommendation
- Perpich Center for Arts Education also reduced 5% (\$534,000 each year)
- Minnesota State Academies operating budget not reduced, but \$309,000 reduction each year for food service restructuring

## Reminder from 2010 Legislation: Omnibus Pension Bill (Chapter 359)

Increases employee and employer contribution rates for various public employee pension programs:

- Employee and employer contribution rates for PERA coordinated plan increased by 0.25% effective January 1, 2011:
  - Employee rate from 6% to 6.25%
  - Employer rate from 7% to 7.25%
- TRA rates will rise by 0.5 percent annually over a four-year period beginning July 1, 2011.
- TRA automatic 2.5 percent annual postretirement adjustment is suspended for 2011 and 2012 followed by a 2 percent increase until the plan becomes 90 percent funded.
- Duluth Teachers Plan and St. Paul Teachers Plan also have employee and employer rate increases.

## Reminder from 2010 Legislation: Omnibus Pension Bill (Chapter 359)

	Employee		Employer	
	Basic	Coordinated	Basic	Coordinated
Current	9.0%	5.5%	9.5%	5.5%
FY 2012	9.5%	6.0%	10.0%	6.0%
FY 2013	10.0%	6.5%	10.5%	6.5%
FY 2014	10.5%	7.0%	11.0%	7.0%
After FY 2014	11.0%	7.5%	11.5%	7.5%

## Levy Limitation and Certification Timelines

- Due to the State government shutdown and MDE hiring freeze, the Levy Limitation and Certification Report may not be available by September 8<sup>th</sup>.
- MDE is exploring options for delaying the September 30<sup>th</sup> proposed certification deadline.
- School districts should schedule a board meeting late in September to accommodate the delay.

# COMMISSIONER'S WORKING GROUP ON SCHOOL FUNDING

- Membership & Timelines
- Charge to the Committee
- Goals
- Assumptions Limiting Scope of Work
- Recommendations

## Membership and Timelines

- Chaired by Tom Nelson (Stillwater Supt) and Peggy Ingison (Minneapolis CFO)
- 23 Members, including:
  - 4 business managers
  - 5 superintendents and 1 retired superintendent
  - 2 school board members and executive director of MSBA
  - 2 special education directors
  - 2 teachers union presidents
  - Parent advocate
  - Charter School director
  - Principal and Executive Director of MASSP
- 5 Ex Officio Legislative Members
- Meetings: March 30, April 6, April 20, May 4, May 11, May 25

## Charge to the Committee

- Develop recommendations for school finance reform to present to the Governor.
- The intent was to provide information to inform policy discussions as the 2011 legislative session comes to a close, and for development of Governor's budget recommendations to the 2012 and 2013 legislatures.
- As a starting point for discussion, the working group was asked to review draft funding reform proposals developed by MDE.

## Goals

1. Improve the adequacy, equity, and stability of pre K-12 education funding.
2. Simplify education funding.
3. Preserve local control.
4. Close the achievement gap.
5. Promote high achievement for all students.
6. Direct resources closest to students, teachers and the classroom.

## Assumptions Limiting Scope of Work

1. The state's \$5.0 billion budget shortfall for the FY 2012 - 2013 biennium, and the projected shortfall of \$4.4 billion for the FY 2014 - 2015 biennium, will preclude large increases in E-12 education funding in the near future.
2. Despite the state's gloomy budget outlook, state policymakers and the public put a high priority on E-12 education.
3. Given the above, it is assumed for purposes of this working group that E-12 funding will not be reduced in the near future, but will increase by a modest amount.
4. Therefore, the working group should focus on identifying and developing options that will most effectively advance the education funding reform goals outlined above, given a modest influx of new state funding (\$20 - \$200 million range).

## Assumptions Limiting Scope of Work

5. Changes in state taxes (e.g., Income, Sales) were not part of the charge to the working group.
6. It was further assumed that there will not be an increase in state total property tax levies for E-12 education, and that any proposed changes in property taxes will not create significant redistribution of property tax burdens among districts or regions

# WORKING GROUP RECOMMENDATIONS

## (See Executive Summary, Pages 1 & 2)

1. Invest in early learning, with resources targeted first to all-day kindergarten for students living in poverty.
  - Beginning in FY 2013, provide all-day K funding for students eligible for free or reduced-price lunches who participate in a free all-day K program open to all kindergarteners at their school.
  - Fund classroom observation of teachers and feedback as part of a proposed statewide early childhood quality rating and improvement system (QRIS).

## WORKING GROUP RECOMMENDATIONS

2. Roll a portion (\$400) of referendum levies into the general education formula
  - Provide a more adequate, uniform and stable funding base for all districts and charter schools.
  - Lessen reliance on local referenda.

## WORKING GROUP RECOMMENDATIONS

3. Establish a uniform general education levy by consolidating and replacing existing school levies, including a portion of existing referendum levies rolled into the formula.
  - There will be no increase in total school levies with a component of the levy spread on tax capacity and a component spread on referendum market value.

## WORKING GROUP RECOMMENDATIONS

4. Simplify funding formulas and student accounting to make E-12 education funding more understandable and transparent.
  - Simplify student weightings
  - Separate declining enrollment funding from pupil weighting system
  - Eliminate obsolete / inequitable funding categories:
    - Training and experience revenue
    - Equity revenue (in combination with referendum roll-in)
    - Transition revenue
    - Charter Lease Aid Grandfather
  - Reduce the number of separate categoricals

## WORKING GROUP RECOMMENDATIONS

### 5. Reform basic skills funding

- Align funding more closely with educational need to better support high academic achievement for all students and closing achievement gaps.
- Roll extended-time funding into compensatory formula and allocate based on concentration of poverty
- Eliminate 80% cap in compensatory concentration formula.
- Allow districts flexibility in the use of an additional 10% of compensatory revenue.
- Extend eligibility for LEP funding from 5 to 7 years and expand sliding scale for concentration aid

## WORKING GROUP RECOMMENDATIONS

### 6. Refocus integration funding.

- Provide all districts required to submit an integration plan with \$600 per student of color enrolled in the district (current average level of integration revenue per student of color)
- Better define uses of integration revenue to support achieving integrated schools and closing the achievement gap.
- Funding would be included in the basic skills portion of the general education revenue, and would be 100% state aid (no levy).
- Some transition funding was recommended.

## WORKING GROUP RECOMMENDATIONS

### 7. Recognize and reward growth in student achievement.

- Create a noncompetitive grant program to recognize schools with outstanding growth in student achievement and disseminate best practices.
- Grants would be based on percent of tested students making high growth in reading and math at all grade levels.
- Up to 50% of the grant would be used at the school to maintain the school's excellent performance. The remainder of the grant would be used to provide best practices training or to disseminate best practices information to other schools.

## WORKING GROUP RECOMMENDATIONS

### 8. Reform special education tuition billing.

- Require the serving school district or charter school to cover a portion of unfunded costs for open-enrolled students. (Instead of allowing the serving district or charter school to bill the resident school district for 100% of unfunded special education costs)
- Provide an exception for charter schools with an extremely high concentration of special education students.

## WORKING GROUP RECOMMENDATIONS

9. Recognize regional cost differences.
  - Roll a portion of referendum revenue into a new location equity levy for the seven county metro area and for non-metro regional centers.
  - Location equity revenue would be funded through an equalized levy spread on referendum market value.

## WORKING GROUP RECOMMENDATIONS

10. Restore inflation-adjusted general education formula to FY 2003 level
  - Prices as measured by the Consumer Price Index (CPI) will increase 25.1% between FY 2003 and FY 2013
  - Including the \$100 added to the formula in the 2011 E-12 Education Act, the formula has increased 13.5% since FY 2003; an additional \$532 would be needed to restore buying power to the FY 2003 level.
  - If \$400 of the increase is covered by a roll-in of referendum revenue, an additional \$132 would be needed to restore the buying power of the formula to the FY 2003 level.

## WORKING GROUP RECOMMENDATIONS

### 11. Reduce charter school lease aid.

- Eliminate the charter school lease aid grandfather
- Reduce charter school lease aid formula from 90% of costs not to exceed \$1,200 per pupil to 85% of cost not to exceed \$1,133 per pupil, to partially offset revenue gain to charter schools from referendum roll-in

## WORKING GROUP RECOMMENDATIONS

12. Phase in revenue increases and uniform general education levy to assure a smooth transition.

# FISCAL IMPACT OF WORKING GROUP RECOMMENDATIONS



## Proposed Change in General Ed Revenue By District Type Before & After Phase-In

	Current / AADM	Initial Proposed / AADM	Initial Change / AADM	Phase-in/ AADM	Proposed Per AADM	Change Per AADM	% Chg Per AADM
STATEWIDE TOTAL	8,324	8,667	343	-256	8,410	87	1.0%
TOTAL METRO	8,709	9,025	316	-237	8,788	79	0.9%
TOTAL NONMETRO	7,789	8,123	333	-250	7,873	83	1.1%
MPLS & ST PAUL	10,448	10,784	335	-252	10,532	84	0.8%
OTHER METRO, INNER	8,702	9,104	402	-302	8,802	101	1.2%
OTHER METRO, OUTER	8,245	8,528	283	-212	8,316	71	0.9%
NONMET >=2K	7,621	7,934	313	-234	7,699	78	1.0%
NONMET 1K-2K	7,679	8,002	324	-243	7,760	81	1.1%
NONMET < 1K	8,262	8,650	387	-290	8,359	97	1.2%
CHARTER SCHOOLS	8,901	9,554	652	-489	9,065	164	1.8%

# Proposed Change in Total Revenue / ADM by District Type



	Proposed Changes / AADM					
	Gen Educ	All Day K	High Growth	Spec Educ	Total	% Chg
STATEWIDE TOTAL	87	57	9	0	152	1.8%
TOTAL METRO	79	54	10	3	146	1.7%
TOTAL NONMETRO	83	56	7	1	147	1.9%
MPLS & ST PAUL	84	105	7	12	207	2.0%
OTHER METRO, INNER	101	51	11	1	164	1.9%
OTHER METRO, OUTER	71	42	11	1	124	1.5%
NONMET ≥ 2K	78	55	6	1	141	1.8%
NONMET 1K-2K	81	53	6	1	141	1.8%
NONMET < 1K	97	59	8	0	164	2.0%
CHARTER SCHOOLS	164	77	10	-36	215	2.4%

# Proposed Levy Change By Levy Type

	Description	Levy Changes on ANTC	Levy Changes on RMV	Total Levy Changes
1	Eliminate Operating Capital Levy	(112,869)		(112,869)
2	Eliminate Equity Levy		(74,181)	(74,181)
3	Roll in old Transition Levy to Referendum		(23,962)	(23,962)
4	\$400 Referendum Roll in to formula allowance		(414,988)	(414,988)
5	Eliminate Integration Levy	(29,784)		(29,784)
6	Eliminate Safe Schools levy	(27,222)		(27,222)
7	Subtotal	(169,875)	(513,132)	(683,007)
8	Proposed Uniform General Education Levy	169,875	331,592	501,466
9	Metro and Regional Center Cost Adjustment		181,540	181,540
10	Net Change in Levies	0	(0)	(0)

# Proposed Levy Change by District Type (Year 1 of 4 Year Phase-In)

	Change Total Levy After Phase-in	Change as % of ANTC	Change as % of RMV	Impact per \$100,000 Resid Value
STATE TOTAL	47	0.00%	0.00%	0
TOTAL METRO	-346,766	-0.07%	0.001%	(0)
TOTAL NONMETRO	346,813	0.09%	-0.001%	(0)
MPLS & ST PAUL	1,142,149	-0.30%	0.006%	3
OTHER METRO, INNER	927,677	-0.04%	0.002%	2
OTHER METRO, OUTER	-2,416,593	-0.01%	-0.001%	(1)
NONMET ≥ 2K	-1,665,914	0.02%	-0.002%	(2)
NONMET 1K-2K	326,600	0.11%	-0.001%	0
NONMET < 1K	1,686,127	0.17%	0.001%	2

## Questions?

More detailed summaries and spreadsheets are available on the MDE web site.

For general questions, please contact:

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