

MEMORANDUM

TO: Superintendents

Business Managers

FROM: Tom Melcher, Director

Program Finance Division

DATE: July 19, 2012

RE: Estimate of Referendum Cap Inflation Adjustment

This memo is to explain the updated estimate of the referendum cap inflation adjustment which is available on the department website, view spreadsheet Estimated Referendum Cap Inflation Calculation, FY 2005 – FY 2021 at http://education.state.mn.us > School Support > School Finance > General Education > Referendum.

These numbers are based on the June 2012 estimate of the Consumer Price Index for Urban Consumers for all items as provided by the Department of Management and Budget. Annual projected inflation is calculated using a fiscal year average of the estimated quarterly indices. Estimates for the FY 2014 and later years are based on current law, and assume no increase in the formula allowance in future years. The updated estimates will be used to calculate school district initial referendum levy authority and adjustments for the 2012 Payable 2013 Levy Limitation and Certification Report. They will also be used to recalculate referendum revenue for the FY 2013 General Education Aid Entitlement Report.

Based on these estimates, the inflation adjustment ratio for FY 2013 is currently estimated at 1.2343 (23.43 percent increase over the FY 2004 base). This increases the estimated standard cap to \$1,597.18, which is \$7.25 less than the estimate used to set school district levies last year (estimated standard cap of \$1,604.43). For any district with an FY 2013 referendum allowance approved by the voters that exceeds the referendum cap, a small negative levy adjustment will be added to the district's levy authority this fall.

The inflation adjustment ratio for FY 2014 is currently estimated at 1.2593 (25.93 percent increase over the FY 2004 base). This estimate increases the standard cap to \$1,629.53 and will be used to calculate initial referendum levy authority this fall.

The projected inflation ratio used to calculate the alternative cap is increased by one-fourth of the formula allowance increase between FY 2008 and the current revenue year. Based on the FY 2013 formula allowance of \$5,224, the inflation adjustment ratio is 1.1450 (14.50 percent increase over the FY 2004 base) for FY 2013 and beyond.

For school districts that passed a referendum with an automatic inflation adjustment on the ballot, FY 2009 was the first year that the automatic adjustment could be made. The annual inflation adjustment for FY 2013 is currently estimated at 0.95 percent. This is a reduction from the estimate of 1.79 percent that was used to set school district levies last year. *For any district with an FY 2013 referendum allowance with an automatic inflation adjustment, a small negative levy adjustment will be added to the district's levy authority this fall.* The annual inflation adjustment for 2014 is currently estimated at 2.02 percent.

For each fiscal year the actual inflation adjustment ratio and annual inflation will be finalized after the fiscal year is over, and will be used to make final aid and levy calculations. The final inflation adjustment ratio is based on the Consumer Price Index for All Urban Consumers published by the Bureau of Labor Statistics, and will be posted on the Department of Education website for each year when finalized. For FY 2011, final calculations were made last August. For a discussion of the impact on final levy adjustments for the payable 2013 levy, see memo Final Referendum Cap Inflation Adjustment for FY 2011 at http://education.state.mn.us > School Support > School Finance > General Education > Referendum.

For a detailed discussion of how the operating referendum cap inflation adjustment relates to a school district's referendum ballot questions, please view memo Operating Referendum Cap Inflation Adjustment Clarification, dated August 11, 2003.

If you have further questions, please contact Terri Yetter at terri.yetter@state.mn.us or 651-582-8868, or Bob Porter at bob.porter@state.mn.us or 651-582-8851.