Senate OFPA
ELNauman

SUMMARY OF E-12 EDUCATION FINANCE REDUCTIONS

Final Conference Agreement 2003 Minus Feb.2003 Forecast

Type of Education Finance Reductions (000s of $)	FYs 2004-2005		FYs 2006-2007	
	Dollars	Percent	Dollars	Percent
Shifts	436.9	70.3%	77.6	15.8%
Conversion of State Aid to Property Taxes	21.7	3.5%	29.6	6.0%
Elimination of Statutory Growth Factors	79.8	12.8%	205.0	41.7%
Programmatic Reductions	83.5	13.4%	179.4	36.5%
Total	621.9	100.0%	491.6	100.0%

HANDOUT # 1

LINE ITEMS INCLUDED IN PROGRAMMATIC REDUCTIONS

General Education (Partial)
Richfield Airport Impact Aid
Charter School Start-up Aid
Best Practices Seminars
Education Accountability Audits
Advance Placement/International Bach.
Reading Grants
Youthworks Program
Special Education Litigation Costs
Health and Safety Aid (partial)
Alternative Facilities Bonding Aid (partial)
Nutrition Programs (partial)
Basic Library Support (partial)
School Readiness (partial)
ECFE (partial)
Way to Grow
Head Start
Community Education (partial)
Violence Prevention Grants
After School Enrichment Grants
Adult Graduation Aid
ABE Audits
Department of Education
Perpich Center for Arts Education
Faribault Acadademies for the Deaf and Blind

Minneapolis Star Tribune
Editorial: K-12 education/Live up to the promise

January 4, 2005

About four of every 10 Minnesota budget dollars go to educate the state's nearly 900,000 schoolchildren. At just over $11 billion, the K-12 budget is the single largest among state agencies. So with all that cash -- and some local referendum dollars to boot -- why are so many school districts imposing fees, reducing programs and laying off staff?

They are hurting financially because the state has failed to keep pace with the rising costs and changing demands of a good educational system. Four years ago, the governor and Legislature said the state would take on about 80 percent of public education costs to ease the education burden on local property taxes. But lawmakers have yet to fulfill that promise; in fact the state backpedaled more than it moved forward.

During the first couple of years after the shift, funding remained essentially flat. But school costs and expenses didn't, resulting in severe budget reductions for many districts. Then the state adopted school funding bills that pretended inflation didn't exist, again squeezing local districts. And last year, as state leaders wrestled with a billion-plus deficit, about $200 million was trimmed from K-12.

Students and their families have been squeezed enough. It is time for state leaders, especially Gov. Tim Pawlenty, to step up and complete the business of properly funding schools. The governor has said recently that he is willing to devote more resources to K-12 education. We hope he is serious and is talking about funding in a meaningful way.

It won't be good enough to devote token nickels and dimes on smaller initiatives such as the ones he has highlighted in the past. A few bucks here or there on pilot programs to restructure teacher pay won't help districts maintain reasonable class sizes or hang on to much-needed staff.

At a minimum, state leaders should add inflationary increases to the basic per-pupil formula. At about 2 percent, that would amount to about $400 million over the biennium. That increase should not be made at the expense of other good programs in health and human services or local government aid -- robbing Peter to pay Paul is not an answer; it is an abdication of responsibility.

Another leftover K-12 matter is restoration of the nearly $200 million that was cut from the learning budget during the last legislative cycle. That might seem like small potatoes out of an $11 billion budget, but that little amount had big consequences. As districts are under increased pressure to improve achievement, those budget bites pulled the plug on several programs specifically for struggling student populations. Minneapolis had to discontinue after-school service for several thousand youngsters before the school year ended. Some suburban school systems scaled back or eliminated all-day kindergarten. Head Start and other early education programs took hits, too -- at the same time research was confirming that quality preschool gives students an academic edge and that every dollar spent on early education yields many dollars in return for society.

Back in November, Minnesota voters turned several Republican House members out of office, in part because of unhappiness with the state of K-12 affairs. Pawlenty and House leaders should listen to their voices and do the right thing by Minnesota students.

Straight talk about state finances

from a couple of

fiscally conservative former finance commissioners

John Gunyou & Jay Kiedrowski

HANDOUT # 3

Three financial questions

1. How did we get into this mess?
2. Why do we still have a mess?
3. How can we *really* fix it?

1. How did we get into this mess?

a) We don't have a mess

b) The recession caused it

c) Spending is out of control

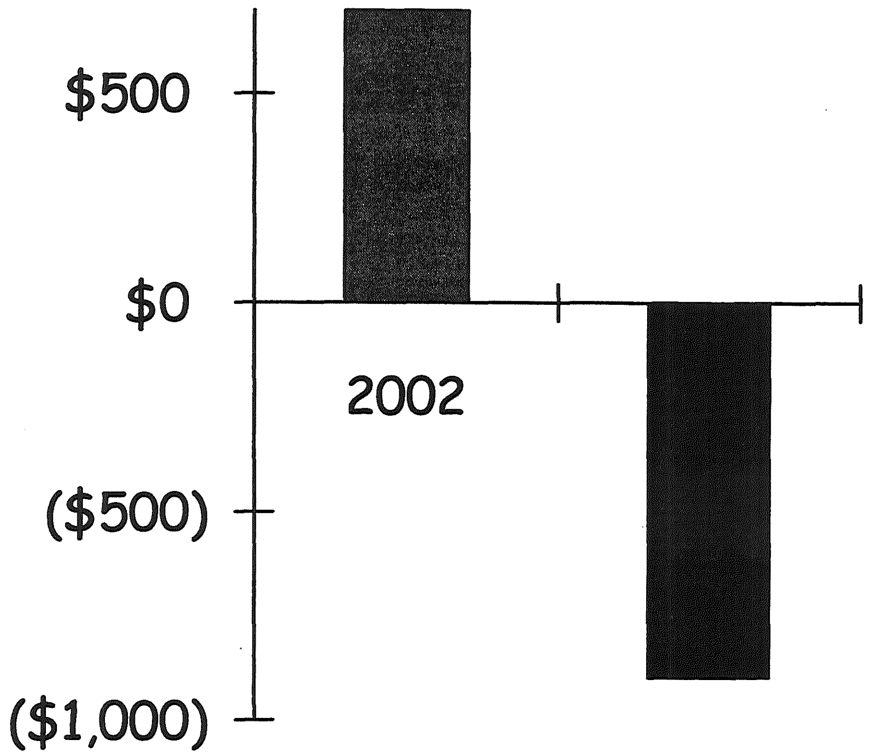
d) We inherited it from Jesse

Answer: None of the above

We *do* have a mess

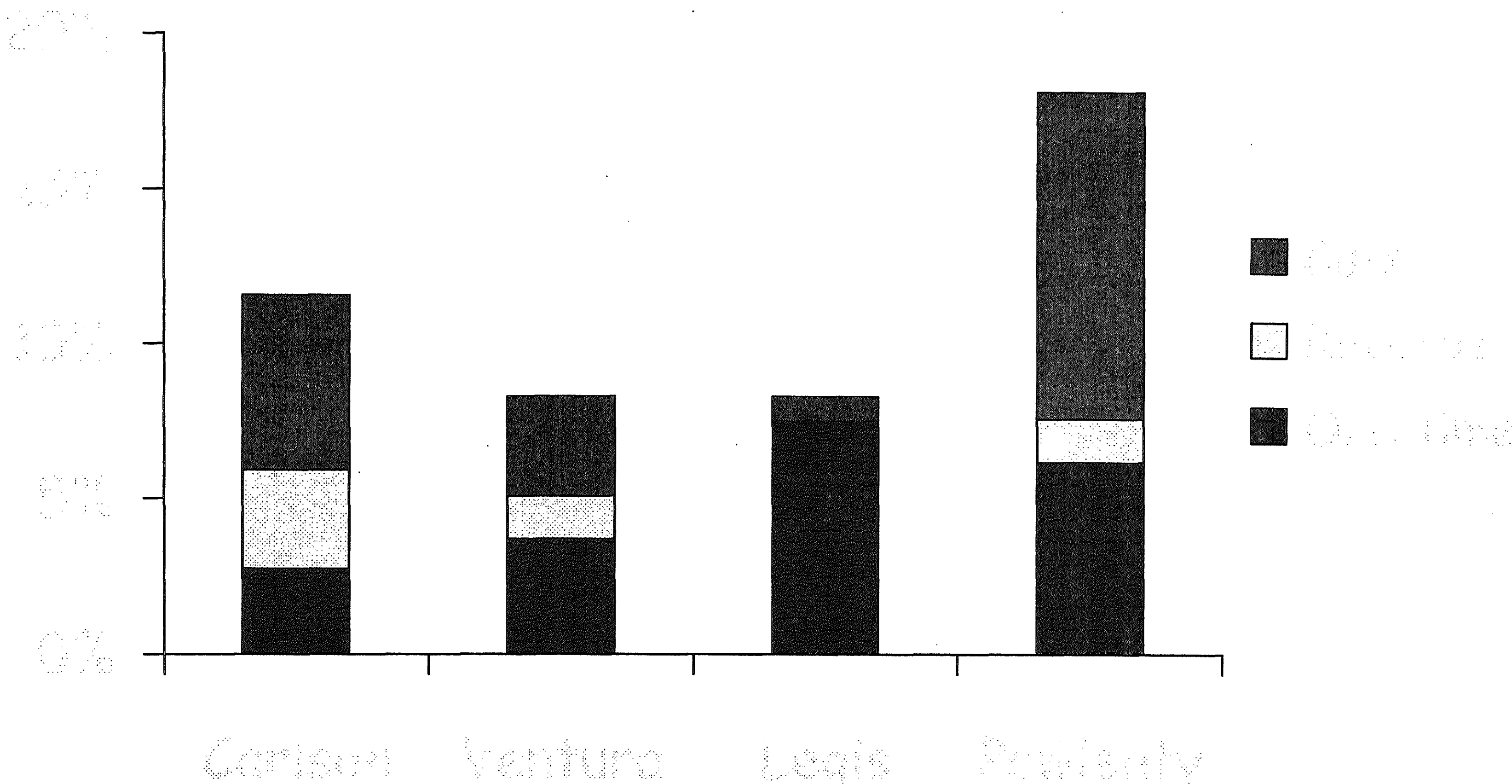
- Budget still isn't balanced
  - We still face a $1.4 billion deficit
  - We're still spending $2 million a day more than we're taking in
- Lost our *AAA* credit rating
  - Moody's: "dramatic deterioration in the state's financial position"
  - Heavy reliance on one-time reserves, gimmicks and phony forecasts

We didn't balance the budget
when the recession first hit



- First GAAP (accrual) deficit in 20 years
- One-time fixes delay & compound problem
- State budget violates Sarbanes-Oxley

The crisis was self-inflicted
with short-term fixes



Spending is *not* out of control

our national rankings have fallen

Spending (per $1000)	1992	2002
Total Spending	10	22
K-12 Education	9	27
Higher Education	28	35
Highways	13	23
Public Welfare	4	10

2. Why do we still have a mess?

a) We don't have a mess - balanced the budget & protected schools

b) The lingering recession

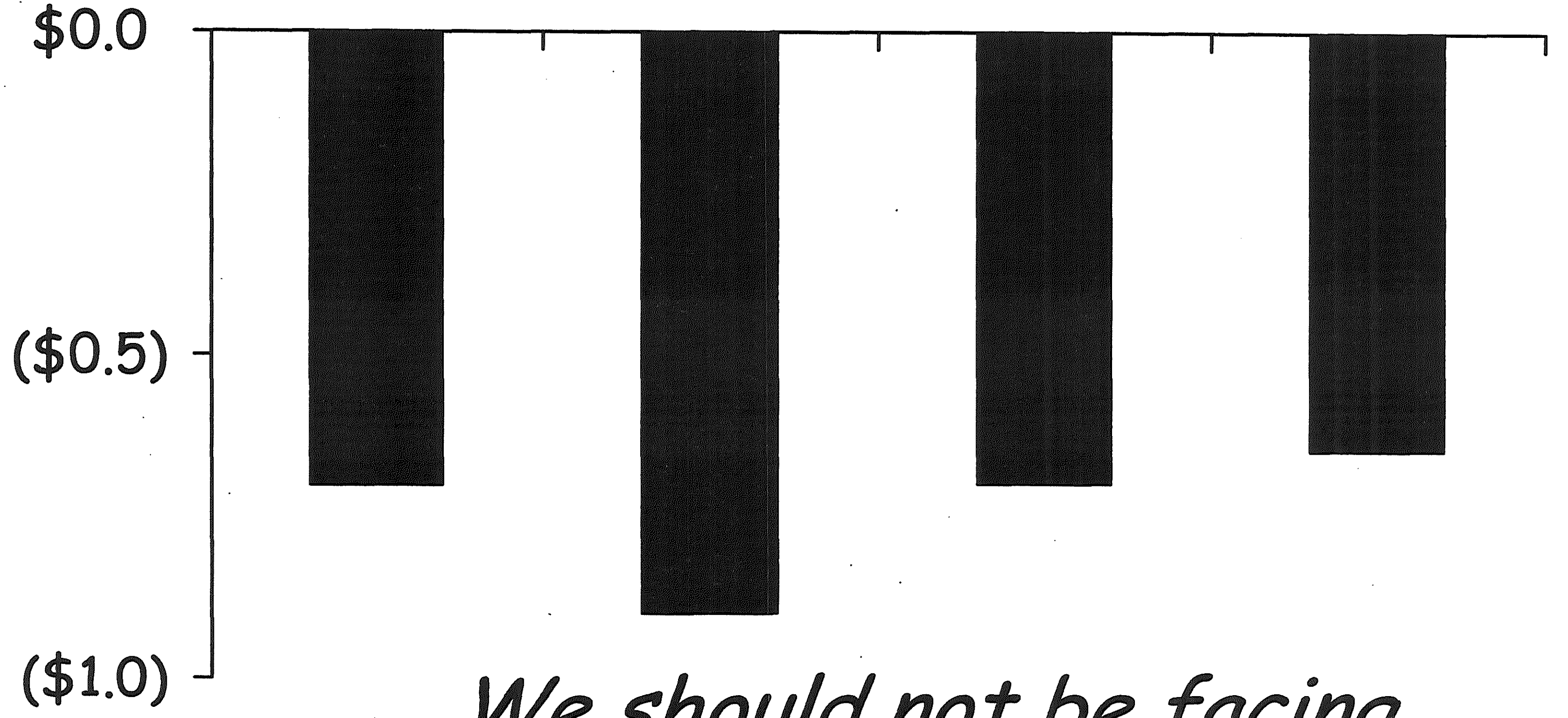
c) It's a spending/revenue problem

d) Because of the other guys

Answer: None of the above

Four more years of deficits

despite the economic recovery



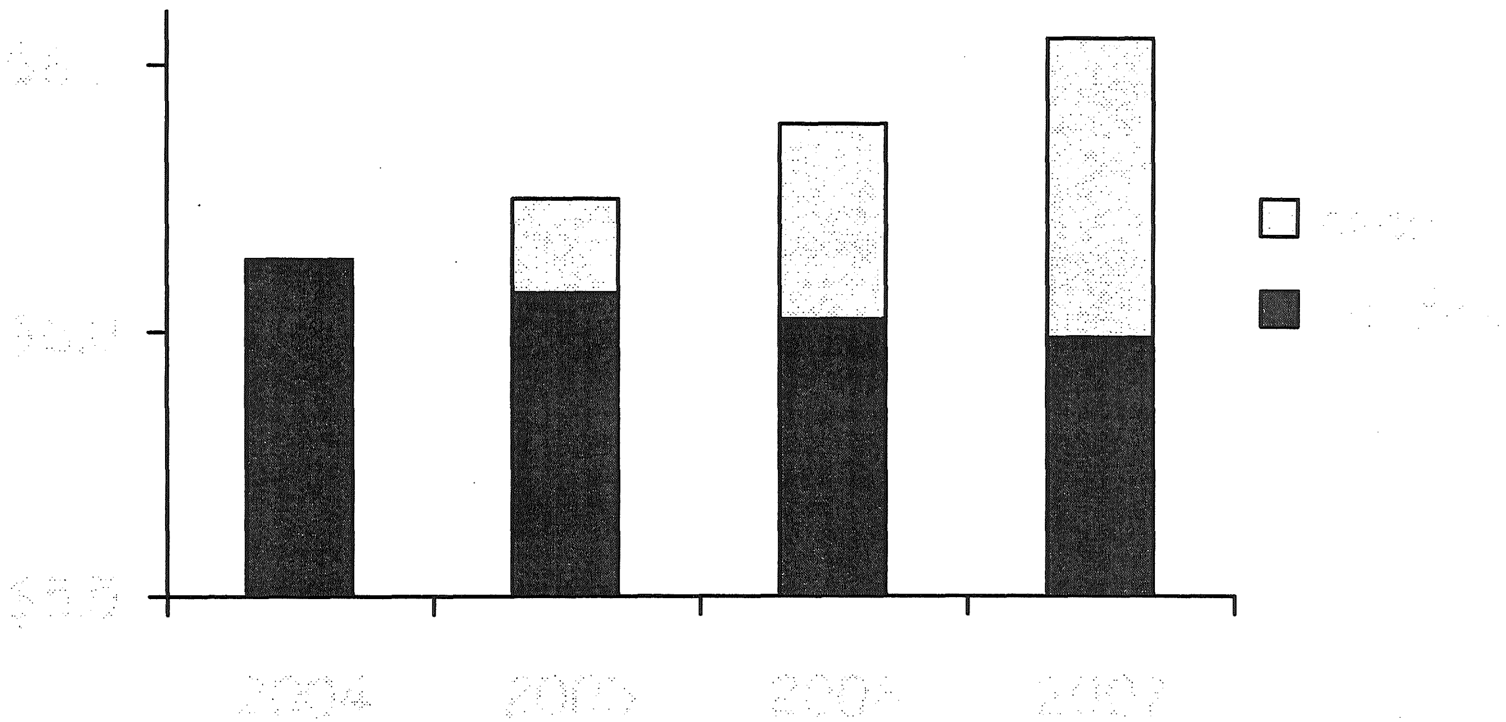
We should not be facing another $1.4 billion deficit

It's mostly a gimmick problem

Biennial Growth	(billions)	
Taxes	$2.0	8%
Other	(1.2)	(60%)
Total Revenue	$0.8	3%
Health & HS	$1.4	20%
Other	1.4	7%
Total Spending	$2.8	10%

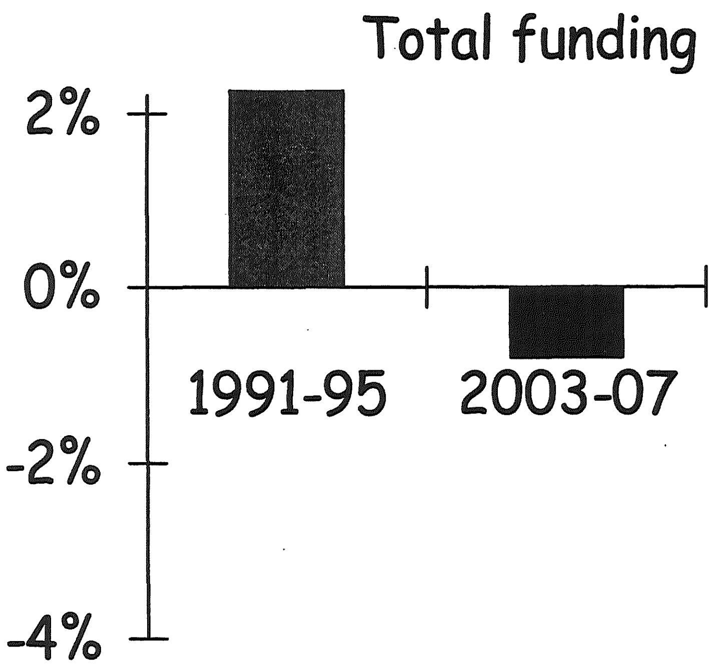
We didn't protect our schools

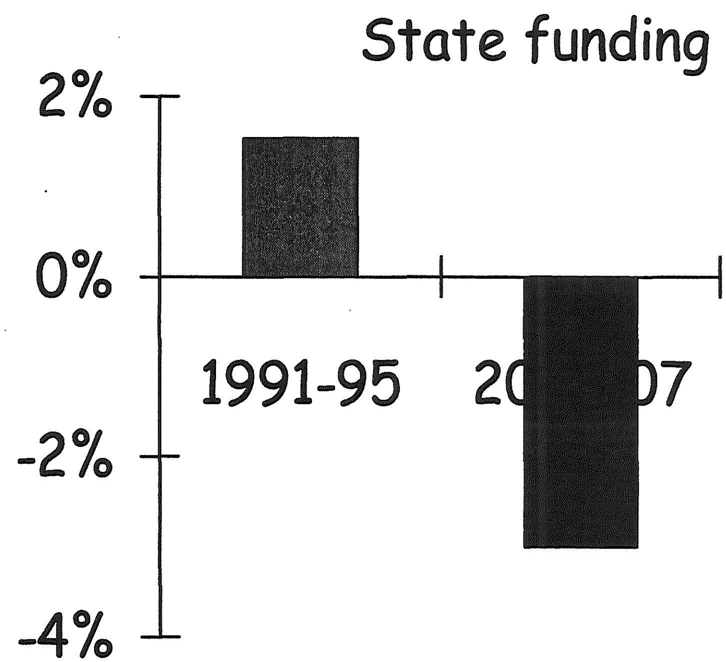
state E-12 funding is declining



We didn't pay for growth & inflation

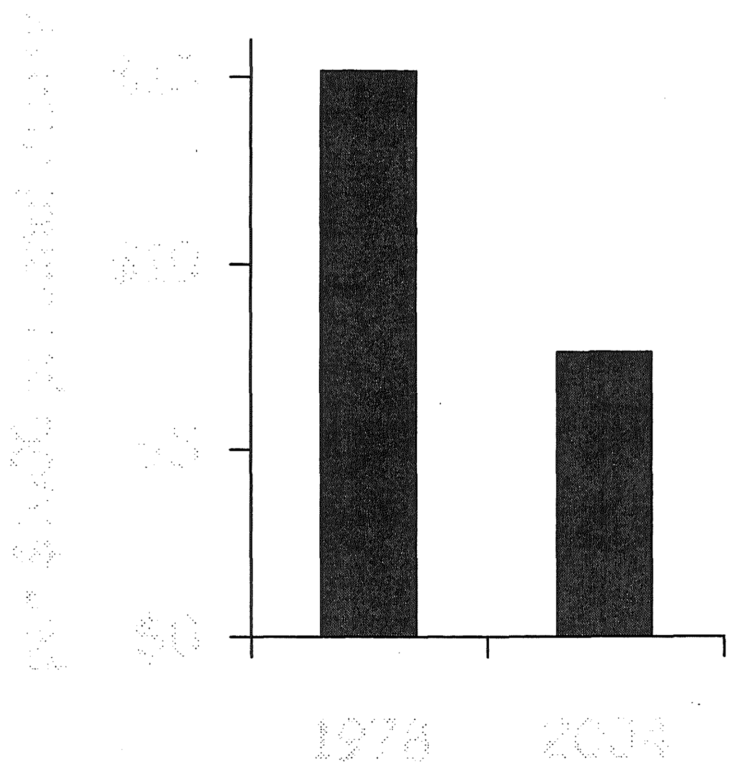
annual increase above inflation & student growth





We shifted costs back onto property taxes

College support continues to fall



- ➢ Our funding effort has fallen 50% over past 25 years
- ➢ Bigger drop than 42 other states

3. How can we *really* fix it?

a) Honestly balance the budget

b) Spend smarter

c) Reform the tax system

d) Invest in the future

Answer: All of the above

Honestly balance the budget

1. Absolutely *no more gimmicks* (e.g. no shifts, transfers, debt acceleration)
2. Honestly count inflation & also balance budget for *next* biennium
3. Bipartisan solution (compromise on no-tax pledge *and* favorite programs)
4. Adopt concurrent revenue resolution

Spend smarter, don't just cut

1. Reform major cost drivers (e.g. long-term health care)
2. Fund programs that save in the long-run (e.g. school readiness)
3. Better target public subsidies (e.g. student grants & loans)
4. Demand accountability (eliminate mandates & artificial tax caps)

Reform our volatile tax system

options can be revenue neutral

- Broaden sales tax base
- Index gas tax to inflation
- Broaden corporate tax base
- Diversify with more fees
- Use income averaging
- Use "trigger" taxes

Invest in the future

1. Fund our schools & colleges

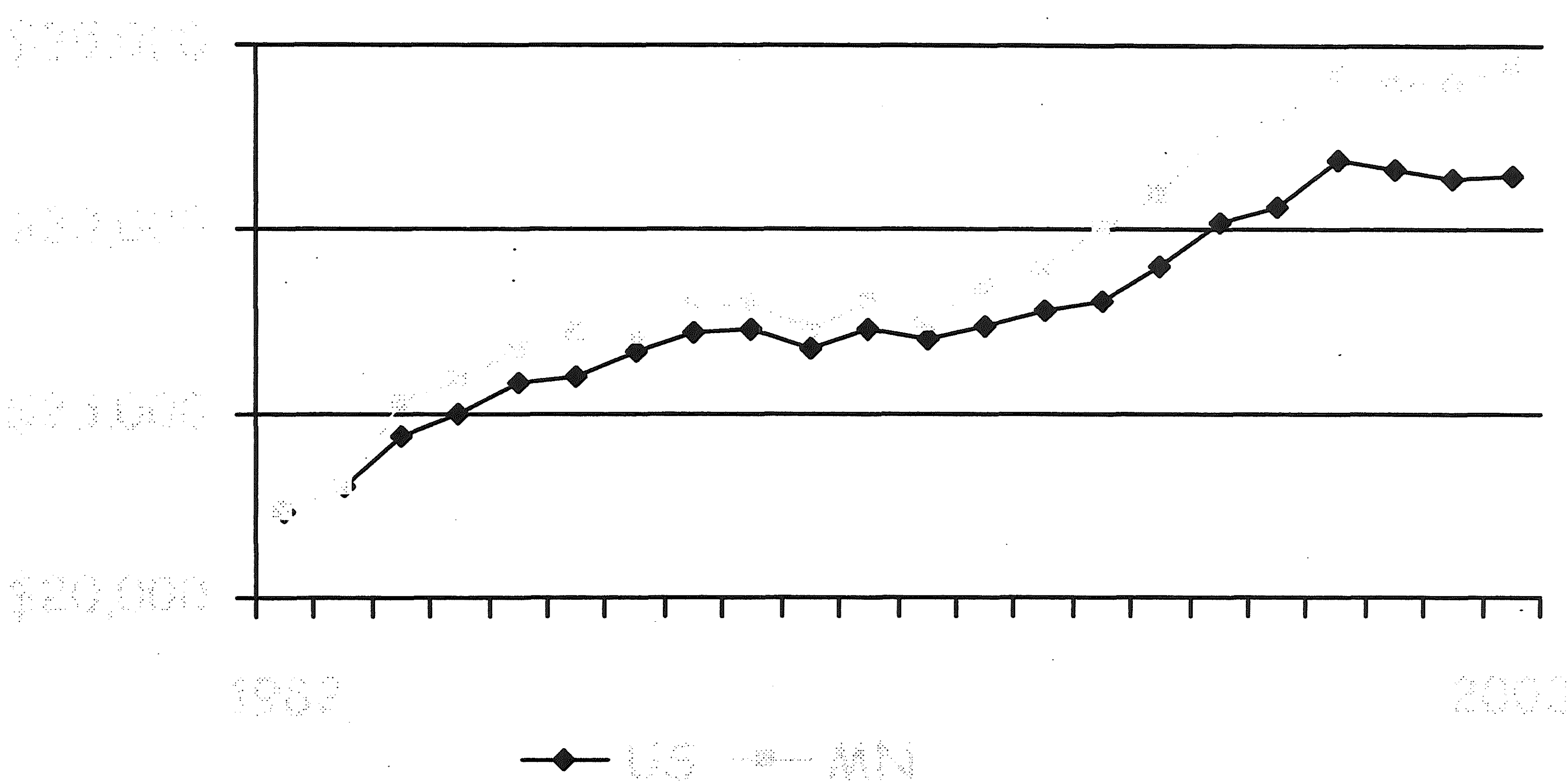
- *It is the duty of the legislature to establish a general and uniform system of public schools . . . shall make such provisions by taxation . . . (MN Constitution, Article VIII, Sec. 1.)*

2. Meet our transportation needs

- *A trunk highway . . . county state-aid highway . . . municipal state-aid street system shall be constructed, improved and maintained . . . (MN Constitution, Article XIV, Sec. 2, 3, 4.)*

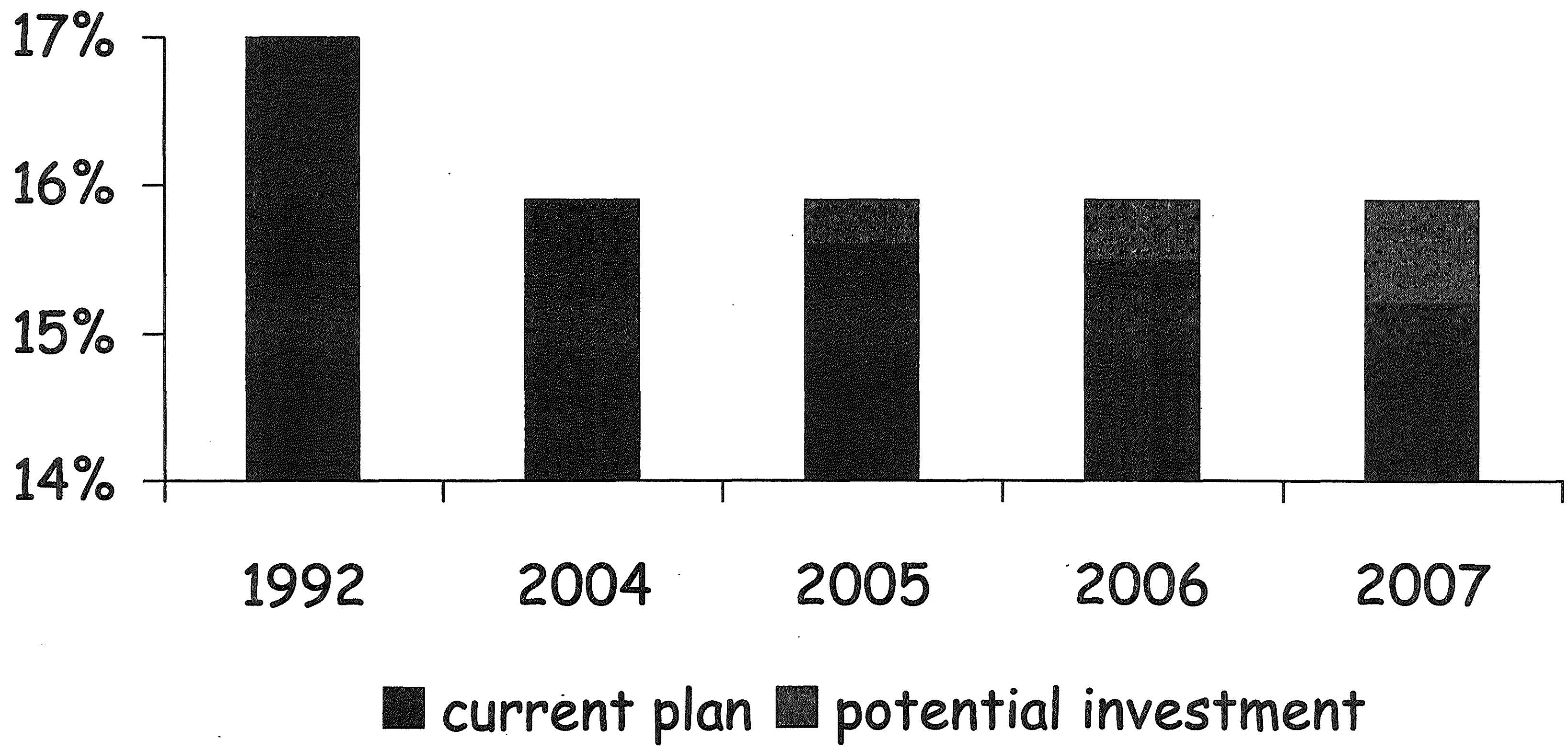
Our investment strategy has worked

Personal income growth has led the nation



We can afford to invest

by freezing the price of government, not driving it even lower



What kind of Minnesota are we leaving for our children?

"The moral test of government is how that government treats those who are in the dawn of life, the children . . ."

(Hubert H. Humphrey)

"A community addresses issues in a bipartisan setting . . . with a caring concern for the education of future generations . . ."

(Elmer L. Anderson)

HANDOUT # 4

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Last update: January 3, 2005 at 11:09 PM

John Gunyou, Jay Kiedrowski and Pamela Wheelock: Time for state to stop fiscal charades

John Gunyou, Jay Kiedrowski and Pamela Wheelock

Published January 4, 2005

It's official. Minnesota is now facing its fourth straight year of budget deficits. This time the gap is $1.4 billion. It is not $700 million, as our governor and some legislators have suggested, because this lower amount ignores the real cost of funding the state's program commitments.

Minnesota should not be facing yet another budget deficit. The economic recovery is well behind us, and other states have already returned to making investments in their future. We're still saddled with a budget deficit because the problems that began in fiscal year 2003 were never resolved.

The shortfalls of 2003, 2004 and 2005 were mostly deferred, rather than permanently fixed. For three years in a row, the governor and Legislature have relied on one-time patches to put off the day of reckoning. One-time fixes should only be used during a recession to phase in the necessary permanent revenue and spending changes -- reforms yet to be made in Minnesota.

Rather than craft a permanent resolution to the shortfalls, the governor and Legislature used one-time reserves and accounting tricks to paper over the problem. Although our leaders claimed they balanced the budget when the crisis first hit, in truth, the 2003 budget was nearly $1 billion out of balance on an accrual basis. That meant they didn't fix the problem by balancing ongoing revenue with ongoing spending.

As three former Minnesota finance commissioners who have served Republican, DFL and Independent governors, we believe it's time for a permanent solution to these chronic budget crises. We think it's time for our leaders to set aside their partisan finger-pointing and political posturing, and do the right thing for Minnesota.

The governor and Legislature must restore fiscal stability by adopting a budget that carefully balances both taxing and spending decisions. How they do that is open to policy debate -- some leaders want to hold the line on taxes, while others want to invest more resources in priority programs. Regardless of their choices, the solution must be balanced and sustainable in the long run.

Here are three steps to achieving fiscal stability:

• First and foremost, our leaders must absolutely forgo the use of any more gimmicks -- no more shifts, transfers, reserves, revenue accelerations or other "smoke and mirror" tricks. Ongoing revenue must be balanced with ongoing spending to permanently resolve the budget problem.

Our leaders must honestly balance the budget, and stop shifting fiscal problems into the future. For example, they must not claim they avoided a gas tax increase by borrowing against future federal transportation allotments. That has the short-term political benefit of building road projects today, but forcing a future burden onto taxpayers -- either by reducing construction or by increasing taxes.

There is no free lunch. The governor must set the standard with his January budget proposal to the Legislature by structurally balancing both 2006-07 and 2008-09 with no more gimmicks.

Second, the governor and Legislature must work together on a bipartisan basis. From our years of experience, we know that real bipartisan efforts will be needed to craft an honest and lasting budget solution. For the governor and his legislative allies, that means putting taxes back on the table. Despite all their high-tax claims, Minnesota is no longer among the most expensive states in the country. The Minnesota Taxpayers Association recently reported that our total state and local spending now ranks 22nd among states -- right down there in the middle of the pack.

For starters, we should seriously consider raising the gas tax to provide a stable source of funding for Minnesota's transportation needs. It hasn't been increased in 16 years, and a higher gas tax is widely supported by business and government groups throughout the state.

The cigarette tax is another strong candidate -- it would raise revenue and reduce health care costs by cutting back smoking, especially among young people. Minnesota's current tax is 35th among states, which ranks us down with the tobacco-producing Southern states.

Compromise also means putting favorite projects and programs on the table, even though past budget actions have already reduced spending on many state programs in the last several years. We would hope that the Legislature looks first at programs that are not clearly linked to state priorities or where there is insufficient evidence that the programs are effective in delivering results.

However, that doesn't mean just cutting budgets -- it means spending smarter. For example, it's going to take real leadership to achieve the reforms necessary to bring health care spending into line, which is one of the most significant parts of the state budget -- specifically long-term care for the elderly and disabled. This is a time for hard work, collaboration and creativity -- not political posturing and sound bites.

• Finally, the House and Senate should commit to pass a concurrent revenue resolution by March 15, as required by state law. The brinkmanship that led to a legislative stalemate last year must end. Have the debate as to how much revenue Minnesota should raise for the 2006-07 budget, and then set that amount by March 15. This will allow ample time for the finance and appropriation committees to craft the details of the program expenditures for the next budget during their open hearings.

We would suggest starting at the current price of government -- how many cents of every dollar earned goes to pay for government programs. That current share is about 16 percent of personal income. It's fallen from 17 percent a decade earlier, and is scheduled to drop to 15 percent over the next five years.

There's no need to drive it lower. If we simply freeze the share of income that state and local governments are already taking from taxpayers, there should be adequate resources to pay for real growth and inflationary costs of priority programs as our economy continues to grow.

That's it -- three steps to fiscal stability. True leaders have the courage to make the tough choices. They don't avoid dealing with the real issues by using accounting gimmicks and symbolic gestures. It's time for the governor and the Legislature to lead. It's time to stop all the fiscal charades and honestly balance the budget.

John Gunyou is Minnetonka's city manager, Jay Kiedrowski is a senior fellow at the University of

Minnesota's Humphrey Institute, and Pamela Wheelock is executive vice president and chief finance officer of Minnesota Sports and Entertainment.

Here's the real truth about education funding

John Gunyou

I see we're now playing "shoot the messenger." When you don't have the facts to support your position, the common political strategy is to attack the personal integrity of your critic.

Rather than honestly debate the future of our state's education system, some folks are trying to revise the past with half truths. They're claiming that Gov. Carlson increased taxes, but froze state education funding, while Gov. Pawlenty protected both our schools and taxpayers. In truth, it's just the opposite.

The Carlson administration consistently funded student growth, inflation and education reform, despite the need to resolve a 12 percent budget shortfall. We also provided the largest increase for early childhood readiness our state has ever seen.

The half-percent sales tax increase represented about one-fourth of our balanced solution, and helped make all that possible. How could anyone possibly believe that we raised taxes, but shortchanged education? Where else would all that new money have gone, if not to our schools?

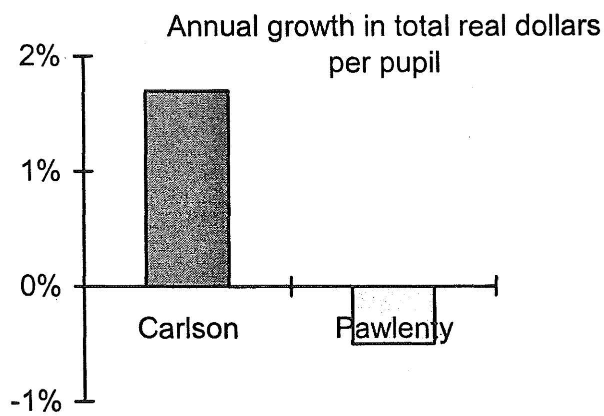
The Minnesota Department of Finance reports that total school funding increased from $4.313 billion to $5.155 billion during the challenging first three years of the Carlson administration (FY1991 to FY1994). While crafting a permanent solution to the state's last budget crisis, we still managed to increase total school funding by over 6 percent a year.

During the first two years of the Pawlenty administration (FY2003 to FY2005), total school funding will increase from $8.357 billion to $8.725 billion. That's only 2 percent annually, and the state still faces a billion-dollar deficit.

But that's not the whole story. To make a fair comparison, we also need to adjust for inflation and student growth, and look at the impact on local property taxes. Our school funding is based on a combination of state aid and local taxes.

The state's per-student "formula" is only one piece of the complex education funding pot. As such, it can not be used to fairly compare school support from year to year. In fact, Minnesota Department of Education cautions that "the formula allowance is not a reliable indicator of the growth in school district revenue over time because of several factors, including changes in pupil weights . . . declining enrollment, transfers of various programs into or out of the general education formula, offsets to the formula for changes in other funding components . . ."

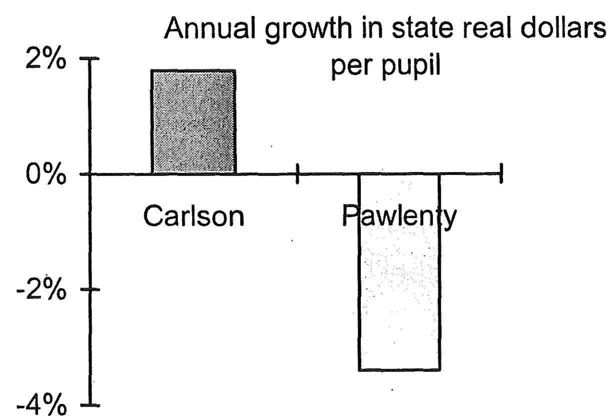
The most truthful measure of education support is total per pupil funding in real (inflation adjusted) dollars. This measure shows that ***total real school revenues per pupil increased under Carlson, but declined under Pawlenty***.



During the Carlson administration, total E-12 school revenue in real dollars per pupil increased at an annual rate of 1.7 percent. Even during the first three years when we were solving the budget deficit, this support still increased by 1.6 percent annually. These were real dollars we provided to our schools over and above student growth and inflation – real funding increases to pay for program development and reform.

During the first two years of the Pawlenty administration, total E-12 school revenues in real dollars per pupil will decline by 0.5 percent annually. And at the same time that school revenues are declining, our districts must deal with increases in the number of special education students and non-English speaking students, and also the cost of the federal No Child Left Behind mandates.

There's another aspect of the school funding picture, and that's the impact of state funding support on local property taxes. ***Carlson protected against local school property tax increases, while Pawlenty dramatically shifted much more of the burden back onto local taxpayers.***



During the Carlson administration, state funding for schools in real dollars per pupil increased at an annual rate of 1.8 percent. By honestly funding the state's obligation to our schools, we did not shift the education funding burden back onto local property taxpayers.

During the first two years of the Pawlenty administration, real state per pupil support has declined by 3.4 percent annually. As a result, school districts have been forced to increase property taxes in order to replace the loss of state aid. In 2004 alone, total Minnesota school property taxes are increasing by 8 percent, with more increases expected in 2005. This increase in school property taxes is not the result of increased school spending, but decreases in state school funding under the Pawlenty administration.

Criticism of the Carlson administration is misplaced. We increased state taxes, and clearly funded education with those new revenues. It is the Pawlenty administration that has cut funding for schools, while increasing local school property taxes.

The children of our state would be far better served if our legislators devoted more of their energies to honestly balancing our state budget and fully funding our schools, than in unwarranted attacks on their critics – especially when the critics are right.

John Gunyou is the Minnetonka city manager, and was finance commissioner for Gov. Arne Carlson. This was written on October 28, 2004 in response to an opinion piece by Rep. Barb Sykora, Chair of the House Education Committee, 'They raised taxes but didn't give funds to schools,' published in the StarTribune on October 23, 2004.

HANDOUT # 6

Last update: April 20, 2004 at 7:16 PM

John Gunyou: Why has state stopped investing in education?

John Gunyou

Published April 21, 2004

Nicole Gunyou is a teacher. Like her great-grandmother four score and seven years earlier, my firstborn has chosen to make a difference in the lives of children.

Not so her father. Thirty years ago, I learned firsthand that teaching is not a profession for the faint of heart. That earlier epiphany was recently reconfirmed when I prepared Nicole's tax return.

My pride for her commitment quickly dissolved into a concern that she barely makes enough to support herself, much less a future family of her own. And even more troubling, I discovered that Nicole had spent $1,512 of her own money to buy classroom books and supplies.

There's something very wrong about that. Why should a person entrusted to guide our next generation into responsible citizenship find it necessary to dip so deeply into her own shallow pockets?

Perhaps the more troubling question is: Why has Minnesota stopped investing in education?

Generations of our political and business leaders have understood that education is a sound investment. To compete on the world stage, Minnesota needs highly educated entrepreneurs and workers. It's the ticket to our individual and collective futures.

Over a decade ago, during the state's last budget crisis, the Carlson administration respected that reality. While permanently solving a 12 percent budget gap, we also provided the largest funding boost for early childhood education in our state's history, and continued our commitment to K-12 education with 4.5 percent annual increases. As the economy recovered, we also restored our investments in Minnesota's colleges.

Returning financial stability to Minnesota and continuing those critical investments enabled a decade of quality public services, job growth and tax rebates. In short, our strategy worked.

And now, that's all changed. Instead of continuing to invest in our state's future, we're sacrificing it.

Minnesota's long tradition of responsible stewardship is being replaced by an ideology of disinvestment. We've abandoned the moderate fiscal and economic policies that have served our state so well, and have replaced that successful strategy with a single-minded allegiance to the god of lower taxes.

Taxes aren't some inherent evil to be exorcized. They're simply the price of government. Taxes pay for everything from investments in our schools and colleges, to police and fire services, to the public infrastructure we need to support a healthy economy.

To keep that price affordable, taxes must stay in line with our personal income and community needs. The fact of the matter is, the price of government has been going down over the past decade. That's right, even before all the no-new-tax pledges, our state and local governments were taking a smaller share money out of our pockets to provide all those essential investments and services.

Taxes are not out of control. We can afford to invest in Minnesota.

In fact, we can't afford not to invest in our state's future. Minnesota's leaders didn't follow a high-tax, high-investment strategy for the past century and a half because they were screaming Socialists. They used that formula because it worked. It enabled our frozen flyover state to prosper.

Unfortunately, we're now disinvesting in our state's one true competitive advantage -- education. And worst of all, we're not even having an honest debate about what's happening. Instead of courageously confronting the real challenges, our state leaders are consumed with a passel of social issues that won't make a whit of difference to Minnesota's fiscal and economic future.

Even more troubling, our leaders are pandering to the lowest common denominator by placing individual interests over the community good. The same people who graduate from tax-subsidized colleges hypocritically sign no-tax pledges, and then shamelessly play to the people who vote against school referendums as soon as their own children are no longer in school.

Two years ago, our state leaders negligently promised to take over school funding without any way to pay for that huge future commitment. Then they promptly doubled the crisis by making irresponsible short-term decisions to temporarily plug the resulting gap. Last year they froze state funding, rather than increase taxes to pay for their past indulgences.

The implications for education are staggering. For the first time in our state's history, funding for both schools and colleges will go down for the next three years in a row. Despite all their hollow rhetoric, our state leaders didn't "protect education," they sacrificed it on the altar of no-new-taxes.

And here's the dirtiest little secret of all: Even after all those cuts, they still haven't fixed the state's budget problem. Minnesota still faces a billion-dollar deficit, right after this fall's elections.

That means, even with a strong economic recovery, the cuts in education will have to accelerate. It's not the economy that's threatening Minnesota's future; it's a systematic policy of disinvestment.

Nicole Gunyou hopes to still be a teacher next year. Like thousands of teachers, parents and students throughout our state, she's waiting to see who survives the latest round of layoffs in what's now become a perennial ritual.

It's a simple question that deserves an honest answer from our state leaders: Why has Minnesota stopped investing in education?

John Gunyou is Minnetonka's city manager. He was Minnesota's finance commissioner under Gov. Arne Carlson.