

Senator Johnson, D. E. introduced—

S. F. No. 485 Referred to the Committee on Finance

A bill for an act

relating to education finance; modifying a school district's percentage of students attending nonpublic school necessary to qualify for an exemption; creating a process to resolve a tuition obligation; converting referendum revenue authority for Common School District No. 815, Prinsburg; authorizing the school district to recertify its school levy for taxes payable in 2005; amending Minnesota Statutes 2004, section 123A.70.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2004, section 123A.70, is amended to read:

123A.70 [PRIVATE SCHOOLS; PRINSBURG.]

Sections 123A.64 to 123A.68 shall not apply to any common school district in which is located any existing private school maintaining elementary and secondary education for 75 50 percent of the eligible pupils within the district and complying with the requirements of section 120A.22.

[EFFECTIVE DATE.] This section is effective July 1, 2005.

Sec. 2. [DETERMINATION OF OUTSTANDING OBLIGATIONS.]

The boards of Common School District No. 815, Prinsburg, and Independent School District No. 2180, MACCRAY, must meet to determine the amount of the outstanding tuition owed by the Prinsburg School District to the MACCRAY School District. If the districts cannot agree to the amount of the tuition owed, the districts may submit all relevant information to the commissioner of education who shall determine the amount of the

1 tuition obligation owed to the MACCRAY School District based on
2 the number of pupils resident to Prinsburg attending MACCRAY
3 schools, the general education revenue amounts for the two
4 districts for the fiscal years in dispute, and other relevant
5 financial information as determined by the commissioner. If
6 requested to do so by the board of either school district, the
7 commissioner shall be required to hold a contested case hearing
8 on the tuition dispute under Minnesota Statutes, chapter 14.

9 Sec. 3. [CONVERSION OF REFERENDUM REVENUE AUTHORITY TO
10 SPECIAL LEVY AUTHORITY.]

11 Subdivision 1. [CONVERSION OF QUESTION 1 REFERENDUM LEVY
12 AUTHORITY TO SPECIAL LEVY AUTHORITY.] Notwithstanding any law to
13 the contrary, Common School District No. 815, Prinsburg, may
14 convert the levy authority approved during the November 2004
15 general election as school district ballot question 1 from
16 referendum revenue authority to special levy authority. This
17 levy authority must be used for payments of outstanding tuition
18 amounts to Independent School District No. 2180, MACCRAY. The
19 maximum levy authority annually shall be converted from the
20 amount described as a dollar allowance per resident marginal
21 cost pupil unit to a fixed dollar amount for each of the three
22 years as specified by the board of Common School District No.
23 815, Prinsburg. These amounts may be levied for taxes payable
24 in 2005, 2006, and 2007 only. Seventy percent of the amount
25 certified in each year must be spread on tax capacity and the
26 remaining 30 percent of the levy must be spread on the
27 referendum market value of the school district. This levy is
28 not subject to the property tax recognition shift under
29 Minnesota Statutes, sections 123B.75, subdivision 5, and
30 127A.441.

31 Subd. 2. [CONVERSION OF QUESTION 2 TO SPECIAL LEVY
32 AUTHORITY FOR FOUR YEARS.] Notwithstanding any law to the
33 contrary, Common School District No. 815, Prinsburg, may convert
34 the levy authority approved during the November 2004 general
35 election as school district ballot question 2 from referendum
36 revenue authority to special levy. The maximum levy authority

1 under this question is the annual amount specified by the board
2 of Common School District No. 815, Prinsburg, as the amount
3 necessary to eliminate the district's operating deficit.
4 Seventy percent of the amount certified in each year must be
5 spread on tax capacity and the remaining 30 percent of the levy
6 must be spread on the referendum market value of the school
7 district. This levy is not subject to the property tax
8 recognition shift under Minnesota Statutes, sections 123B.75,
9 subdivision 5, and 127A.441.

10 Subd. 3. [SPECIAL OPERATING LEVY AUTHORITY.] Common School
11 District No. 815, Prinsburg, may hold an election once every
12 four years on the first Tuesday after the first Monday in
13 November, beginning with the November 2008 general election to
14 approve additional special operating levy for another four
15 years. The ballot must state that the board of the district
16 desires to levy the amounts necessary to eliminate any operating
17 deficit for the following four years. The election must follow
18 the notice and procedural provisions described under Minnesota
19 Statutes, section 126C.17. Seventy percent of the amount
20 certified in each year must be spread on tax capacity and the
21 remaining 30 percent of the levy must be spread on the
22 referendum market value of the school district. This levy is
23 not subject to the property tax recognition shift under
24 Minnesota Statutes, sections 123B.75, subdivision 5, and
25 127A.441.

26 Subd. 4. [SCHOOL BOARD RESOLUTION.] The board of Common
27 School District No. 815, Prinsburg, may adopt a written
28 resolution in seeking the conversion of referendum revenue
29 authority to special levy authority. The resolution must state
30 the district's desire to convert its referendum revenue
31 authority approved at the November 2004 general election into
32 special levy authority and specify the amounts of the special
33 levy authority. The district must also notify the Department of
34 Education by July 1 of each year the amount it intends to levy
35 for that year.

36 Sec. 4. [RECERTIFICATION OF 2005 SCHOOL DISTRICT LEVY.]

1 Subdivision 1. [ELIGIBILITY.] Common School District No.
2 815, Prinsburg, may recertify its 2004 levy for taxes payable in
3 2005 if:

4 (1) the district is in statutory operating debt according
5 to Minnesota Statutes, section 123B.81;

6 (2) the district conducted a successful referendum at the
7 November 2004 election; and

8 (3) the board of the district has adopted a resolution as
9 required by section 1.

10 Subd. 2. [RECERTIFICATION PROCESS.] Notwithstanding any
11 law to the contrary, Common School District No. 815, Prinsburg,
12 may recertify its 2004 levy for taxes payable in 2005 within
13 five days of:

14 (1) the effective date of this section, the board must
15 notify the Department of Education that it has adopted the
16 resolution according to section 1;

17 (2) receiving the notice from the district, the Department
18 of Education must recompute the district's 2004 payable in 2005
19 levy limitation and report these amounts to the school district
20 and the county auditor; and

21 (3) receiving the notice from the Department of Education,
22 the school district must certify the added levy amount to the
23 county auditor.

24 The county auditor must add these amounts to the 2004 levy for
25 taxes payable in 2005 previously certified by the school
26 district.

27 [EFFECTIVE DATE.] This section is effective the day
28 following final enactment and applies for taxes payable in 2005.

HANDOUT # 1

Fiscal Note – 2005-06 Session

Bill #: S0485-0 (R) **Complete Date:** 02/07/05

Chief Author: JOHNSON, DEAN E.

Title: ISD# 815 & 2180; OUTSTANDING TUITION

Fiscal Impact	Yes	No
State	X	
Local	X	
Fee/Departmental Earnings		X
Tax Revenue		X

Agency Name: Education Department

This table reflects fiscal impact to state government. Local government impact is reflected in the narrative only.

Dollars (in thousands)	FY05	FY06	FY07	FY08	FY09
Expenditures					
General Fund	5	0	0	0	0
Less Agency Can Absorb					
-- No Impact --					
Net Expenditures					
General Fund	5	0	0	0	0
Revenues					
-- No Impact --					
Net Cost <Savings>					
General Fund	5	0	0	0	0
Total Cost <Savings> to the State	5	0	0	0	0

	FY05	FY06	FY07	FY08	FY09
Full Time Equivalents					
-- No Impact --					
Total FTE					

Bill Description

Under current law, common school district #815, Prinsburg, is exempt from maintaining an elementary and secondary school if 75% of their students attend the private school located in the district. Under section 1 of this proposal the district would continue to be exempt as long as 50% of their students attend the private school.

Through FY 2004, most of the Prinsburg students not attending the private school have been attending district #2180, MACCRAY. Section 2 of this proposal would require the two districts to reach agreement on the amount of tuition Prinsburg owes to MACCRAY for these students for prior years. If the boards cannot reach agreement, the commissioner of education must determine the amount of outstanding tuition.

In November 2004, voters in the Prinsburg school district passed referendum levy authority of \$3,000 per pupil Funding to Repay Tuition Obligations to MACCRAY School District (ballot question #1) and \$1,100 per pupil Funding to Continuing Operations (ballot question #2). The district was already at their maximum referendum allowance and is, therefore, not able to access the new referendum revenue. Section 3 would allow the Prinsburg school board to annually convert each of the new referendum authorities to special levy authority. The special levy authorities would not be subject to the referendum cap and the district could then access the revenue. The levy is to be spread 70% based on ANTC and 30% on referendum market value.

This levy authorized by question #1 must be used for payments of outstanding tuition amounts to the MACCRAY school district. This levy would be for taxes payable in 2005, 2006 and 2007.

The maximum levy authority under question #2 is the annually amount specified by the Prinsburg school board as the amount necessary to eliminate the district's operating deficit. This levy would be for taxes payable 2005, 2006, 2007 and 2008. This section also allows the district to hold an election once every four years to renew this levy authority.

Section 4 requires the county auditor to include the above two levies for taxes payable in 2005 if the Prinsburg school board recertifies its payable 2005 tax levy within certain timelines.

Neither of the special levies would be subject to the property tax recognition shift. The special levies would be recognized in the fiscal year after the levy is certified, i.e. payable 2005 levy would be revenue for FY 2006.

Assumptions

Prinsburg owes MACCRAY tuition for school years 2002-03 and 2003-04, estimated to be \$280,000.

Beginning with FY 2005, Prinsburg students are open-enrolled to MACCRAY, so tuition costs will no longer be an issue.

The Department of Education would have to pay the cost of the contested case hearing, estimated to be \$5,000, if the districts cannot reach agreement on tuition owed.

Prinsburg is currently in statutory operating debt. Based on their audit report, the district had a negative general fund balance of \$88,000 as of June 30, 2003. Unpaid tuition billed by MACCRAY through fiscal year 2003 (\$198,000) has been recorded as a payable as of June 30, 2003, and thus included in this deficit.

Preliminary data shows a negative general fund balance of \$98,000 as of June 30, 2004. However, this deficit must be adjusted for additional unpaid tuition of approximately \$85,000, making the projected deficit approximately \$183,000 as of June 30, 2004. If the district levies for the full amount of unpaid tuition (\$280,000), this deficit will be eliminated.

It is estimated the district would have an operating deficit of \$38,000 annually.

In order to allow adequate time for the county auditor to include the new levies on the tax statements for taxes payable in 2005, the Prinsburg school district would need to re-certify its levy by March 1, 2005.

Expenditure and/or Revenue Formula

The state may incur the cost of contested case hearing, \$5,000, if the districts are not able to reach agreement on tuition owed by Prinsburg to MACCRAY.

Long-Term Fiscal Considerations

This change is considered to be permanent.

Local Government Costs

This proposal would generate additional revenue for district #815, Prinsburg. This revenue would be generated by increased property taxes in the district. There would be no related state aid.

Proposed Property Tax Increase

	Pay 2005 FY2006	Pay 2006 FY2007	Pay 2007 FY2008	Pay 2008 FY2009
Pay Past Tuition	\$93,500	\$93,500	\$93,000	\$0
Continue Operations	38,000	38,000	38,000	38,000
Total	\$131,500	\$131,500	\$131,000	\$38,000

Agency Contact Name: Leemon, Colleen 651-582-8566
FN Coord Signature: AUDREY BOMSTAD
Date: 02/07/05 Phone: 582-8793

EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

EBO Signature: LISA MUELLER
Date: 02/07/05 Phone: 296-6661

Minnesota
Department
of **Education**

February 3, 2005

Marge Breems, Administrator
Common School District No. 815
Kandiyohi County
P.O. Box 297
Prinsburg, MN 56281

Dear Ms. Breems:

This letter is to follow up on my letter of May 28, 2004, regarding the statutory operating debt plan for the Prinsburg school district. The May 28, 2004 letter summarized the discussion at the May 25, 2004 meeting at the Minnesota Department of Education, attended by representatives of the Prinsburg school district and community, Department staff, and Representative Al Juhnke, and outlined an action plan to address the statutory operating debt situation in your district.

Since May 28, 2004, the district has made substantial progress on the plan. An operating referendum levy was approved by local voters, progress has been made in resolving the tuition dispute with MACCRAY, and bills for a special levy have been introduced in the legislature (HF 248 / SF 485). We are now at a critical step in the process whereby it will be determined if a special levy will be authorized by the legislature for taxes payable in 2005. It is my understanding that special legislation would need to be enacted by early March for this to happen. As noted in the May 28, 2004 letter, the consensus reached in the meeting of May 25, 2004 was that, without a special levy for taxes payable in 2005 to address the past due tuition issue and the ongoing structural deficit, the district would be unable to continue operating after FY 2005.

While the Governor's budget does not address the issue of special levy authority for the district, the Department's position is that timely enactment of special legislation enabling the district to begin levying for taxes payable in 2005 would be in the best interests of Prinsburg and the surrounding communities. While we support special legislation and hope that it will be enacted in a timely manner, it is important for the district to begin planning at this time for the possibility that no special levy will be authorized for taxes payable in 2005 and later.

Marge Breems
February 3, 2005
Page 2

Based on the consensus reached in the meeting of May 25, 2004 that Prinsburg will be unable to continue operating in FY 2006 and later without the levy, and the lack of agreement with neighboring districts on a consolidation plan, the alternative appears to be dissolution and attachment under Minn. Stat. § 123A.46. Because the levy must be finalized by early March to be included in taxes payable during 2005, and because the dissolution and attachment process would require several months to complete, the district will need to initiate the dissolution and attachment process by March 1 or shortly thereafter if special legislation has not been enacted by that date. In the event that this becomes necessary, the Department will provide management assistance to you throughout this process.

If you have any questions or need further information, please call me at (651) 582- 8828, or Dr. Charles Speiker at (651) 582-8737.

Sincerely,

Tom Melcher
Program Finance Director

Cc: Rod DeBoer, Prinsburg School Board Chair
Charles Speiker, Financial Management, MDE
Dick Guevremont, Financial Management Supervisor, MDE
Audrey Bomstad, Budgeting & Payments Supervisor, MDE
Chas Anderson, Deputy Commissioner, MDE
Representative Al Juhnke
Senator Dean Johnson

Minnesota Department --- of Education

May 28, 2004

Marge Breems, Administrator
Common School District No. 815
Kandiyohi County
P.O. Box 297
Prinsburg, MN 56281

Dear Ms. Breems:

In response to your telephone request of May 27, 2004, this letter summarizes my perspective on the discussion at the May 25, 2004 meeting at the Minnesota Department of Education, attended by representatives of the Prinsburg school district and community, Department staff, and Representative Al Juhnke.

The Department has not disapproved the district's statutory operating debt plan, and does not intend to withhold aids under Minn. Stat. § 123B.83, Subd. 4, for Fiscal Year 2005. We would like to continue to work with you to address the very serious statutory operating debt situation in your district. This position is based on several factors, including (1) the strong potential for legislation that would address the Prinsburg statutory operating debt situation in time for an additional tax levy to be made for taxes payable in 2005, (2) the fact that there is very little time left before the start of Fiscal Year 2005, (3) the strong interest in the Prinsburg community in maintaining a viable common school district, and (4) our understanding from the May 25, 2004 meeting that there is consensus on the following:

1. Before June 30, the Prinsburg school board will provide the Department with a written statement of its position in the tuition dispute with MACCRAY, including its perspective on how the tuition levels have been set in past years under the unwritten agreement, and the rationale for its position. The Department will request the same from MACCRAY and will work with the two districts in an effort to resolve the dispute.
2. Before June 30, the Prinsburg school board will provide the Department with updated general fund line item revenue and expenditure budgets consistent with Uniform Financial Accounting and Reporting Standards (UFARS) for FY 2004 and FY 2005. The Department will continue to work with the district to ensure that the projected revenues are accurate and to suggest possible alternatives for additional expenditure

Marge Breems
May 28, 2004
Page 2

reductions that would help minimize or eliminate the ongoing structural imbalance between revenues and expenditures.

3. Representative Juhnke will work with other legislators including Senator Dean Johnson to seek enactment of the proposed Prinsburg legislation, during a special session if possible, or very early in the next regular session. The legislation must be enacted early enough to allow a referendum to be held in Prinsburg and added to the levy to be spread for taxes payable in 2005.
4. Without a special levy to address the past due tuition issue and the ongoing structural deficit, Prinsburg would be unable to continue to operate after FY 2005. If the levy cannot be increased for taxes payable in 2005 (FY 2006), either because the legislation is not enacted or because the referendum fails, the district will initiate the dissolution and attachment process in early 2005 to take effect June 30, 2005.

If you have any questions or need further information, please call me at (651) 582- 8828, or Dr. Charles Speiker at (651) 582-8737.

Sincerely,

Tom Melcher
Program Finance Director

Cc: Rod DeBoer, Prinsburg School Board Chair
Charles Speiker, Financial Management, MDE
Dick Guevremont, Financial Management Supervisor, MDE
Audrey Bomstad, Budgeting & Payments Supervisor, MDE
Greg Marcus, Government Relations Director, MDE
Chas Anderson, Deputy Commissioner, MDE
Representative Al Juhnke
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S.F. No. 485 -Outstanding Tuition Owed by Common School District No. 815, Prinsburg, to Independent School District No. 2180, MACCRAY

Author: Senator Dean E. Johnson

Prepared by: Shelby Winiecki, Senate Research (651/296-5259) *AW*

Date: February 7, 2005

S.F. No. 485 authorizes Common School District No. 815, Prinsburg, to levy beyond the maximum allowed by state law to pay its operating deficit and the outstanding tuition owed to Independent School District No. 2180, MACCRAY, and to certify a pay 2005 levy after December 30, 2004.

History: The Prinsburg school district does not operate a public school. Most students attend a private school in the district and the balance attend public school in the MACCRAY district. Prinsburg is in statutory operating debt and has been unable to meet its financial obligations to MACCRAY. Prinsburg owes approximately \$280,000 to MACCRAY and the district has insufficient revenues to meet future obligations. To address this shortfall, Prinsburg passed a referendum in 2004 and S.F. No. 485 is required to implement this referendum. The Department of Education has served notice that the school district has until March 1, 2005, for passage of this bill. If the bill does not pass by this deadline, the district must initiate the dissolution and attachment process.

Section 1 [Private schools; Prinsburg.] Under current law Prinsburg is exempted from the requirement to maintain public schools. Under this exemption, Prinsburg must have 75 percent of its eligible pupils enrolled in an existing private school. This section reduces that percentage requirement from 75 percent to 50 percent. [Effective Date.] This section is effective July 1, 2005.

Section 2 [Determination of outstanding obligations.] The MACCRAY and Prinsburg school districts must agree upon the amount of outstanding tuition owed to MACCRAY by Prinsburg. If the amount is not agreed upon, the Commissioner of

Education will determine the amount owed based on all relevant financial information. The board of either school district may request a contested case hearing be held by the commissioner.

Section 3 [Conversion of referendum revenue authority to special levy authority.]

Subdivision 1 [Conversion of question 1 referendum levy authority to special levy authority.] Prinsburg may convert the referendum revenue authority to special levy authority for payment of the outstanding tuition for the years 2005, 2006, and 2007. The levy is not subject to the referendum cap or to the property tax recognition shift. The levy is spread 70 percent based on adjusted net tax capacity and 30 percent based on referendum market value.

Subdivision 2 [Conversion of question 2 to special levy authority for four years.] Prinsburg may convert the referendum revenue authority to special levy authority for payment of the district's operating deficit for the years 2005, 2006, 2007, and 2008. The levy is not subject to the referendum cap or to the property tax recognition shift. The levy is spread 70 percent based on adjusted net tax capacity and 30 percent based on referendum market value.

Subdivision 3 [Special operating levy authority.] Prinsburg may hold an election every four years, beginning in 2008, to allow for a special operating levy for the amount necessary to eliminate any operating deficit for the following four years. The levy is not subject to the property tax recognition shift. The levy is spread 70 percent based on adjusted net tax capacity and 30 percent based on referendum market value.

Subdivision 4 [School board resolution.] Prinsburg school board may adopt a resolution stating it wishes to seek a conversion from referendum revenue to special levy authority and the amount of the special levy. The district must notify the Department of Education of this resolution by July 1 if it intends to levy.

Section 4 [Recertification of 2005 school district levy.]

Subdivision 1 [Eligibility.] Prinsburg may recertify its 2004 levy for taxes payable in 2005 if the district is in statutory operating debt, conducted a successful referendum at the 2004 election, and the board adopted the resolution.

Subdivision 2 [Recertification process.] The county auditor must include the levies in the 2005 taxes payable if the following steps occur within five days of enactment: the School District notifies the Department of Education that it adopted the resolution, and within five days of receiving the notice, the Department of Education will recalculate and report the added amount to the district and the county auditor, and no more than five days later, Prinsburg certifies the added amount to the county auditor.

[Effective Date.] This section is effective immediately and applies for taxes payable in 2005.

**District 815
Recent Levy History**

<u>Payable</u>	<u>General Education Levy **</u>	<u>Net Tax Capacity Levy</u>	<u>Market Value Levy</u>	<u>Total Levy</u>	<u>Levy Equity Adjustments Due to Being "Off the Formula"</u>
1996	307,486.39	312,521.09	0.00	312,521.09	Unknown
1997	252,596.43	258,012.82	0.00	258,012.82	25,420.24
1998	171,799.50	195,515.74	0.00	195,515.74	28,685.94
1999	177,835.13	238,381.34	0.00	238,381.34	40,207.67
2000	183,563.21	245,777.89	0.00	245,777.89	37,090.08
2001	177,812.60	225,884.62	0.00	225,884.62	36,889.46 (Reduction taken in 2002/2003)
2002		3,178.76	19,976.15	23,154.91	
2003		3,280.63	21,413.79	24,694.42	
2004		1,989.11	25,270.99	27,260.10	
2005		2,634.22	35,410.17	38,044.39	

** General Education levy is included in the total levy.

"Off the formula" calculated as amount of levy limit in excess of public education pupil count times the general education formula amount
These amounts are then taken out of future state aid payments

Dear Ladies and Gentlemen of the Committee,

My name is Denise Bakker and even though I am unable to be here in person, I assure you this is something that is very important to me.

I have been on the District 815 board for about eight years but I have been involved with District 815's Special Education for 15 years. Our daughter, Katrina is hearing-impaired and received speech therapy and some other help because of her disability. When she was first diagnosed and we needed to decide where to send her to school, the person who was the Regional Consultant for the Hearing-Impaired assured us that with District 815's Special Education, we could send her to Central Minnesota Christian School, where our other children attended. She did very well at CMCS with some special education services. We were glad to be able to have had the freedom to make that choice. That freedom is something which I would like to see continued for other parents with children of disabilities as well. We have had several families who have moved into our District so that they would be able to have that choice. The District 815 special education teachers and staff are known for the excellent quality of services they provide.

The large majority of the District 815 residents want to see this District continue. Please do what you can to help us reach that goal. Thank-you.

Sincerely,

Denise Bakker

Memorandum Re: SF 0485; HF 0248 (Regarding District 815)

To: LeRoy Stumpf, Chairperson MN Senate K-12 Education Budget Division of Finance Committee

To: Barb Sykora, Chairperson, MN House of Rep. – Education Finance Committee

From: Greg Bonnema (resident of District 815; member of informal “citizens’ group”)

Dated: February 8, 2005

Thank you for taking the time to consider “our” legislation. We understand that we are not much in terms of size when it comes to school districts or most matters you deal with. We also recognize that each individual district and each individual student within those districts is important. We do appreciate the process, this process – where we have opportunity to present information relating to our situation.

Background:

Common School District 815 (See statute 123A70) is a small rural school district in west central Minnesota. The City of Prinsburg is in the center of District 815. District 815 is one of only two common school districts in Minnesota. It has approximately 530 registered voters and covers approximately 26 square miles.

District 815 does not have a public school. Most of the students in the district attend a private school, Central Minnesota Christian School (CMCS), located in Prinsburg. Prior to the 2004/2005 school year, substantially all district students not attending CMCS were “tuitioned out” to other surrounding districts. Most were tuitioned out to the MACCRAY school district, ten miles to the west of Prinsburg. For quite a number of years, the tuitioning arrangement worked well. However, over the last several years, District 815 has not been able to pay the entire amount that MACCRAY has billed. Additionally a dispute arose between the two districts over the amount that should be billed for these students. This has put District 815 in Statutory Operating Debt (SOD).

As of February 1, 2005, there were 148 K-12 aged students in District 815. 120 are attending CMCS, 20 are open enrolled to MACCRAY, and 8 are being home schooled. An important aspect of the district’s operations is the Special Education services provided to students, both residents and those coming into the district. District 815 currently serves 26 special education students “on site” in Prinsburg. Those students attend CMCS the balance of the day. The District has a reputation for providing excellent special education services to its students.

Problem/Solution

The funding arrangements of recent years realistically do not fit our school district. Many of the state’s funding formulas and levy limits are based on pupil counts. Due to the extremely low number of public education students in our district, our district was calculated to be substantially “off the formula” for a number of years. As a result, our state aid was substantially reduced. Since 2001, because of low levy limits based on the (public education) pupil unit counts, we have not been able to raise adequate funds to either pay past debt to MACCRAY or fund current operations.

District 815 is relatively unique in that it is one of only two school districts in the state without a public school. After open enrollment of all of its public education students (starting in 2004), it will likely be left with “0” pupil units and therefore no ability to tax its residents without the legislation.

Approximately one year ago, the Department of Education indicated that they planned to shut down District 815 due to their SOD status. District 815 administration held a public meeting last March to inform citizens about their situation. Since then a District 815 citizens group has worked with the District 815 administration, Department of Education officials, and our local legislators, Rep. Al Juhnke and Senator Dean Johnson, to work out a solution.

We originally attempted to get legislation passed in 2004 that would enable our district to go above current levy limits to levy (1) to repay the MACCRAY debt, and (2) for annual operating costs. Our understanding has been that the legislation had strong support from our local legislators as well as the leadership in both the House and Senate. However, along with much other legislation, it failed to pass last session.

We then went ahead with the referendum and proposed a ballot referendum to our district residents that would enable the district to levy the needed taxes. **The ballot passed this past November with 83% support from our voters.** However, since the ballot referendum would only raise a total of approximately \$500 due to the levy limits, we have worked with local legislators to again propose legislation that would allow District 815 to exceed the limits due to our unique situation. We now need the legislation to pass in time to be levied and payable in 2005 in order to enable District 815 to eliminate SOD status and to continue operating.

Assuming that the legislation passes, the one obstacle yet to deal with (whether the district continues or not) is coming to agreement with MACCRAY on past years' debt. If the legislation passes prior to the debt being settled, the Department of Education will "arbitrate" (per section 2 of the legislation). There should be no future disagreements on general education tuitioning arrangements with MACCRAY, since all of those students are now open enrolled to MACCRAY (As of July 1, 2004) allowing for full state funding to MACCRAY for those students.

Why pass this legislation?

- ◇ District 815 can levy its property owners in order to pay past debt it owes to MACCRAY as well as to continue operating.
- ◇ District 815 will be able to continue to provide special education services "on site" to students coming into the district. This means that the students will spend less time on the bus and more time being educated.
- ◇ District 815 retains local control in providing educational services within the district. We believe that local control promotes both interest and accountability.
- ◇ This legislation costs the state no additional tax dollars. Our understanding is that the bill, as it is written, will not adversely affect any current state aids District 815 receives. Our understanding is also that the levy requested is non-equalized (no additional cost to the state).

What happens if the legislation is not passed?

The district continues in SOD status. Our understanding is that the MN Department of Education will shut down District 815 if the SOD status continues without a plan to eliminate the debt.

District 815 will then likely be divided up and absorbed into one or more surrounding districts and district residents become part of a much larger school district (or districts). That obviously would mean less local control over most aspects of education currently provided by the district. One particularly negative result could be special education students spending a much larger portion of their day being bussed to one or more other local schools rather than being educated in Prinsburg.

**District 815
Recent Levy History**

<u>Payable</u>	<u>General Education Levy **</u>	<u>Net Tax Capacity Levy</u>	<u>Market Value Levy</u>	<u>Total Levy</u>	<u>Levy Equity Adjustments Due to Being "Off the Formula"</u>
1996	307,486.39	312,521.09	0.00	312,521.09	Unknown
1997	252,596.43	258,012.82	0.00	258,012.82	25,420.24
1998	171,799.50	195,515.74	0.00	195,515.74	28,685.94
1999	177,835.13	238,381.34	0.00	238,381.34	40,207.67
2000	183,563.21	245,777.89	0.00	245,777.89	37,090.08
2001	177,812.60	225,884.62	0.00	225,884.62	36,889.46 (Reduction taken in 2002/2003)
2002		3,178.76	19,976.15	23,154.91	
2003		3,280.63	21,413.79	24,694.42	
2004		1,989.11	25,270.99	27,260.10	
2005		2,634.22	35,410.17	38,044.39	

** General Education levy is included in the total levy.

"Off the formula" calculated as amount of levy limit in excess of public education pupil count times the general education formula amount
These amounts are then taken out of future state aid payments

Fiscal Status -- Category Sort

K-12 Agenda, 9 am, February 8, 2005

Bill Numb	Author	Description	Fiscal Impact Final?	Fiscal Note		Aid? Levy?	Bill Aid Bill Levy					
				Req'd/ Received	Dates		FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	
<hr/>												
Category Local Levy												
485	Johnson, Dean	Prinsburg	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	1/27/2005	<input checked="" type="checkbox"/>	5,000	0	0	0	0	
				<input checked="" type="checkbox"/>	2/7/2005	<input checked="" type="checkbox"/>		131,500	131,500	131,500	38,000	
<hr/>							Total Aid Impact:	5,000	0	0	0	0
							Total Levy Impact:		131,500	131,500	131,500	38,000

HANDOUT # 5

GOVERNOR'S K-12 EDUCATION BUDGET OVERVIEW

**Minnesota Department of Education
Program Finance Division
January 25, 2005**

TOPICS FOR DISCUSSION

- General Education Revenue Changes
- Categorical Revenue Changes
- Other Policy Changes
- Overall Fiscal Impact

GENERAL EDUCATION REVENUE

FY 2006

- Formula Allowance Increased 2%
 - From \$4,601 to \$4,693
 - \$92 increase per AMCPU
 - (Equivalent to \$100 per unweighted student)
- Transition levy for Pre-K programs that were funded in FY 04 (e.g., High 5)
- Compensatory Revenue for Hmong Refugees Arriving After Oct 1, 2004

GENERAL EDUCATION REVENUE FY 2006

Formulas Delinked & Inflated:

- Compensatory, sparsity, transportation sparsity delinked from formula allowance, but funded as if not delinked with 2% inflation adjustment

Repeal January 15 Contract Deadline & Penalty

No other structural changes

GENERAL EDUCATION REVENUE FY 2006

Alternative Compensation Revenue - “Q Comp”

- Requirements include:
 - ✓ Multiple career paths
 - ✓ Instructionally-based accountability
 - ✓ Professional compensation
 - ✓ Ongoing professional growth
 - ✓ Alignment of staff development plan & set aside

GENERAL EDUCATION REVENUE FY 2006

Alternative Compensation Revenue - “Q Comp”

- Funding Formula:
 - ✓ \$225 times prior FY October 1 enrollment
 - ✓ All aid for FY 2006
 - ✓ Statewide limit = \$16.7 million (9% of state)

GENERAL EDUCATION REVENUE FY 2007

Pupil Accounting / Basic Formula Simplification:

- Eliminate grade level pupil weights
- Eliminate marginal cost pupil units
- Fund based on unweighted current year ADM
(Except regular K @ .5)
- Eliminate aid adjustment for changes in TRA &
PERA contribution rates

GENERAL EDUCATION REVENUE FY 2007

Establish Separate Formulas for Cost Factors:

- Declining enrollment aid @ \$1,297 x ADM decline from prior year (25% of formula)
 - ✓ Roughly equivalent to current 77/23 marginal cost pupil weights
- Secondary education aid @ \$936 per secondary student (18% of formula)
 - ✓ Less than current differential from 4-6 ($1.3 / 1.06 = 22.6\%$)
 - ✓ Greater than current differential from K-3 ($1.3/1.115 = 16.6\%$)

GENERAL EDUCATION REVENUE

FY 2007

2% Increase in Basic Formula:

- Current \$4,601 formula per AMCPU is equivalent to \$4,986 per unweighted current year pupil after adjusting for elimination of grade level weights, marginal cost pupil units and pension adjustment
- Formula allowance = $\$4,986 \times 1.02 \times 1.02 = \$5,188$
- \$100 increase for FY 06, additional \$102 for FY 07

GENERAL EDUCATION REVENUE

FY 2007

Replace miscellaneous levies with \$150 per pupil discretionary levy:

- ✓ Equalized at \$6,900 of ANTC per pupil
- ✓ Average increase of \$76 per pupil
- ✓ Increase over \$76 per pupil subject to “turbocharged” reverse referendum
- ✓ “Losers” guaranteed \$76 minimum increase through transition revenue

GENERAL EDUCATION REVENUE

FY 2007

Repealed levies include:

- ✓ Reemployment insurance, judgments, safe schools
- ✓ Building lease (except existing capital leases)
- ✓ Ice arena, tree growth replacement, swimming pool
- ✓ Lost interest earnings, severance
- ✓ Miscellaneous local provisions

GENERAL EDUCATION REVENUE

FY 2007

Referendum Changes:

- Adjust referendum allowances for change in pupil unit calculations
- Increase standard referendum cap from 18.6% to 28% of formula allowance
- Continue to increase cap for 1994 grandfather districts based on CPI for FY 2009 and later
- Extend Tier 2 equalization to 28% of formula allowance

GENERAL EDUCATION REVENUE FY 2007

Equity Revenue Changes:

- Single statewide formula
- All districts with referendum allowance $< 28\%$ of formula allowance qualify for revenue
 - Includes districts with no referendum
 - Includes Minneapolis, St Paul & Duluth
- Funds allocated on sliding scale, up to \$101/ pupil
- No flat allowance

GENERAL EDUCATION REVENUE FY 2007

Alternative Compensation Revenue - “Q Comp”

- Funding Formula:
 - ✓ Revenue = \$225 times prior October 1 enrollment
 - ✓ \$155 / pupil basic aid
 - ✓ \$70 / pupil equalized levy
 - ✓ Statewide basic aid limit = \$61.9 million (48% of state)

GENERAL EDUCATION REVENUE

FY 2007

Other General Education Revenue Changes:

- Update transportation sparsity formula for FY 03 data
- 2% inflation on delinked formulas
 - Compensatory, sparsity, transportation sparsity, PSEO, etc
- Transition revenue recalculated to guarantee minimum increase of \$199 / pupil over the amount the district would have received in FY 07 from formulas in effect for FY 06 (\$102 basic formula + \$76 discretionary + \$21 average increase in other formulas)

GENERAL EDUCATION REVENUE FY 2007

Changes in Reserve Requirements:

- Eliminate requirement to reserve revenue for learning & development
- Allow districts to count expenditures from staff development reserve balances toward 2% staff development set aside requirement

Special Education Funding

- Increase special education-regular revenue by 4% in FY 07 and additional 4% in FY 08
- Increase is funded with equalized levy
 - Levy equalized at \$6,900 of ANTC / Pupil
 - Levy is subject to reverse referendum
- Allocate most excess cost aid based on prior year data (up to \$2 million based on current year data)
- Simplify & standardize special ed tuition billing

Facilities Funding

- **Deferred Maintenance Levy**
 - For districts not eligible for alternative bonding
 - \$50 / pupil for districts with average building age 35 years or older; less on sliding scale for districts with newer buildings
 - Equalized at \$6,900 of ANTC / pupil
 - Subject to reverse referendum
- **Maximum effort tax rate**
 - lowered from 32% to 28%
 - (from 40% to 32% for new loans after 1/1/02)

Telecommunications Funding

FY 2006:

- Aid = 90% of FY 05 cost adjusted for E-rate discounts exceeding \$15 per AMCPU
- \$4.5 million

FY 2007:

- Aid = 90% of FY 06 cost adjusted for E-rate discounts exceeding \$18 per pupil
- \$4.6 million

Transportation Funding

- Carpenter bus levy @ \$30,000 / bus
- Standardize and limit cost allocations
- Include in special ed base revenue:
 - depreciation on special ed buses
 - travel of special ed staff to nonpublic schools
 - cost of transporting homeless not in shelters
- Enrolling district must transport homeless pupil residing in shelter in another district, unless the districts agree otherwise

Administrative Districts

- Increase efficiency of administrative services while maintaining local control of individual school sites
- Minimum size:
 - 5 districts; or
 - 3 districts with at least 5,000 pupils; or
 - 3 districts with at least 2,000 square miles
- Levy for retirement & severance incentives and other start-up costs

Career & Technical Funding

Grant program for FY 2006 & 2007:

- \$980,000 in FY 06 & \$1 million for FY 07
- Up to 20 demonstration programs for middle school / junior high technology-based program modules

Levy for taxes payable 2008 and later based on current data, recognized in year levy certified:

- Lesser of \$80 per Grade 10 – 12 ADM or 25% of approved costs

High School Initiative

Get Ready, Get Credit

Education Planning & Assessment System (EPAS)

- State to pay for ACT Explore test at grade 8 and Plan test at grade 10

College Level Examination Program (CLEP)

- State to pay for exam fees up to a capped level
- MNSCU will grant credit for students achieving required scores on CLEP

AP / IB

- Increase funding for exam fees and provide stipends to teachers based on number of students passing exams

Expanded Choice

On-line learning

- Increase OLL appropriation by \$1 million in FY 06 and \$2 million in FY 07 for students not previously enrolled in MN public schools

Scholarship tax credit

- Tax credit for corporations contributing to scholarship granting organizations that provide financial aid to low- and moderate income students attending private schools

Miscellaneous K-12 Changes

- Adjust categoricals for pupil unit changes
 - e.g., integration revenue
- Delink misc. categoricals from formula
 - e.g. nonpublic pupil, nonpublic transportation
- Calculate abatement aid using 3rd prior yr levy
- Refocus staff development funds on improving the quality of teaching, increasing achievement, and closing the learning gap

Early Childhood Funding

School readiness program:

- Refocus on development & assessment of academic skills to prepare students for kindergarten
- Strengthen program oversight & accountability

Early childhood health & development screening:

- Provide incentive for screening at age 3 by increasing formula for 3 year olds screened to \$50 and reducing formula for 5 year olds screened to \$30

Adult Basic Education

ABE aid:

- Reallocate aid reductions due to \$21 per FTE cap and underspending to subsequent year's ABE formula

Intensive English Instruction for Adult Refugees:

- \$1 million per year for FY 06 &07

Department of Education / Grants

- Develop computer based, interactive statewide science assessment
 - \$1.2 M FY 06 & 07
- Alternative teacher preparation /licensing
 - \$500,000 FY 07
- Value-added assessment model
 - \$300,000 FY 06, \$1.6 M FY 07

Department of Education / Grants

- Board of School Administrators rulemaking
 - \$20,000 FY 06 & 07
- Electronic Library of Minnesota (ELM)
 - \$631,000 in FY 06 & \$691,000 in FY 07
 - Replace federal funding redirected under federal regulations for statewide database licensing

Department of Education / Grants

10% Reduction to Agency Base Budget

- Includes:
 - Administrative reduction of \$1.2 M per year
 - Elimination of Best Practice Seminars
(\$1 M per year)
 - Elimination of grant for state agency library participation in integrated library system (PALS)
(\$75,000 per year)

State Aid Entitlements

Total \$ (Millions)

	Current Law	Governor	Diff.
FY 05	\$6,088	n/a	n/a
FY 06	\$6,041	\$6,165	\$124
FY 07	\$5,994	\$6,283	<u>\$289</u>
Biennial total over base budget			\$413

Biennial total over FY 05 x 2 = \$272 million

Net School Levies Total \$ (Millions)

	Current Law	Governor	Diff.
FY 06	\$1,369	\$1,374	\$5*
FY 07	\$1,529	\$1,686	<u>\$157**</u>
Biennial total over base budget			\$162

* Pay 06 adjustment for FY 06 Pre K transition revenue

** Pay 06 increase of \$148 M plus \$14 M Pay 07 adjustment for FY 07 alt comp revenue less \$5 M adjustment for FY 06 Pre-K transition revenue

State Appropriations (81.9% / 18.1% Payments):

Increase over Base Budget for FY 06 & FY 07:

- Increase in aid entitlements adjusted
for 81.9% / 18.1% pay schedule.....\$369 M
- Savings from property tax early
recognition adjustment due to
school levy increases..... (\$101 M)
- Net cost to state\$268 M

School District Average General Fund Revenue per Student from State Aids & Levies

	<u>Current Law</u>	<u>Governor</u>	<u>% Diff.</u>
FY 05	\$8,323	n/a	n/a
FY 06	\$8,362	\$8,522	1.9%
FY 07	\$8,501	\$9,066	6.6%

Average Increase over Current Law:
Alt Comp vs Non-Alt Comp Districts
General Fund Revenue per Student
from State Aids & Levies

	<u>Non-Alt Comp</u>	<u>Alt Comp</u>
FY 06	1.7%	4.4%
FY 07	5.3%	8.0%

Additional Information

Department of Education Web Site

- <http://education.state.mn.us/>
- District by district revenue projections
- Biennial Budget Pages – Narrative describing Governor's recommendations
- Supplementary Information

Department of Finance Web Site

<http://www.budget.state.mn.us/budget/operating/index.shtml>

- Overall state budget statistics