Senator Kelley from the Committee on Education, to which was re-referred

S.F. No. 2654: A bill for an act relating to the military; requiring leaves of absence for the immediate family members of a seriously injured or killed member of the armed forces; requiring leaves for immediate family members to attend military ceremonies; providing for and funding certain programs benefiting veterans; creating an individual income tax subtraction for military pensions; requiring higher education veterans assistance offices; requiring educational fairness; appropriating money; amending Minnesota Statutes 2005 Supplement, sections 192.502, by adding subdivisions; 290.01, subdivision 19b; 290.091, subdivision 2; proposing coding for new law in Minnesota Statutes, chapters 181; 197.

Reports the same back with the recommendation that the bill do pass and be re-referred to the Committee on Finance. Report adopted.

....
(Committee Chair)

March 21, 2006 ....
(Date of Committee recommendation)

Senator Kelley from the Committee on Education, to which was referred

S.F. No. 2912: A bill for an act relating to education finance; reducing elementary and secondary class sizes through a voluntary, incentive-based funding program; appropriating money;amending Minnesota Statutes 2004, sections 120B.36, subdivision 1; 126C.20; proposing coding for new law in Minnesota Statutes, chapter 126C; repealing Minnesota Statutes 2004, section 126C.12.

Reports the same back with the recommendation that the bill do pass and be re-referred to the Committee on Finance. Report adopted.

Steve Kelley
(Committee Chair)

March 21, 2006
(Date of Committee recommendation)

Senators Bonoff and Kelley introduced–

S.F. No. 2954: Referred to the Committee on Finance.

A bill for an act

relating to education finance; creating a school district consolidated financial statement; requiring the conversion of Uniform Financial Accounting and Reporting Standards data into a new consolidated financial statement format; requiring the new consolidated financial statement to be published on the Department of Education Web site; creating a task force; amending Minnesota Statutes 2004, section 123B.77, subdivisions 2, 3, by adding a subdivision.

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

Section 1. Minnesota Statutes 2004, section 123B.77, is amended by adding a subdivision to read:

Subd. 1a. **School district consolidated financial statement.** The commissioner, in consultation with the consolidated financial statement task force, shall develop and maintain a school district consolidated financial statement format that converts uniform financial accounting and reporting standards data under subdivision 1 into a more understandable format.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 2. Minnesota Statutes 2004, section 123B.77, subdivision 2, is amended to read:

Subd. 2. **Audited financial statement.** (a) Each district must submit to the commissioner by September 15 of each year unaudited financial data for the preceding fiscal year. These financial data must be submitted in the format prescribed by the commissioner.

(b) By September 30 of each year the commissioner shall convert the unaudited financial data required by this subdivision into the consolidated financial statement format required under subdivision 1a and publish the information on the department's Web site.

EFFECTIVE DATE. This section is effective for financial statements prepared in 2006 and later.

Sec. 3. Minnesota Statutes 2004, section 123B.77, subdivision 3, is amended to read:

Subd. 3. **Statement for comparison and correction.** (a) By November 30 of the calendar year of the submission of the unaudited financial data, the district must provide to the commissioner audited financial data for the preceding fiscal year. The audit must be conducted in compliance with generally accepted governmental auditing standards, the federal Single Audit Act, and the Minnesota legal compliance guide issued by the Office of the State Auditor. An audited financial statement prepared in a form which will allow comparison with and correction of material differences in the unaudited financial data shall be submitted to the commissioner and the state auditor by December 31. The audited financial statement must also provide a statement of assurance pertaining to uniform financial accounting and reporting standards compliance and a copy of the management letter submitted to the district by the school district's auditor.

(b) By December 15 of the calendar year of the submission of the unaudited financial data, the commissioner shall convert the audited financial data required by this subdivision into the consolidated financial statement format required under subdivision 1a and publish the information on the department's Web site.

EFFECTIVE DATE. This section is effective for financial statements prepared in 2006 and later.

Sec. 4. **CONSOLIDATED FINANCIAL STATEMENT TASK FORCE.**

The commissioner of education must convene a task force to develop a consolidated financial statement that converts school district revenues and expenditures from the uniform financial accounting and reporting standards, under Minnesota Statutes, section 123B.77, subdivision 1, to a consolidated financial statement recommended on November 11, 2005, by the Describing School Finances Committee. The task force shall consist of 11 members. The commissioner of education or the commissioner's designee shall chair the task force. The commissioner shall appoint two members from the Minnesota Department of Education. One task force member each shall be appointed from the Association of Metropolitan School Districts, the Schools for Equity in Education, the Minnesota Rural Education Association, and the Minnesota Association of School Business Officials. The chairs of the house Education Finance Budget Division and the senate K-12 Education Budget Division must each appoint two members, one representing the Minnesota business community and one public school parent. The task force shall complete its work by August 15, 2006.

EFFECTIVE DATE. This section is effective the day following final enactment.

A bill for an act

relating to the military; requiring leaves of absence for the immediate family members of a seriously injured or killed member of the armed forces; requiring leaves for immediate family members to attend military ceremonies; providing for and funding certain programs benefiting veterans; creating an individual income tax subtraction for military pensions; requiring higher education veterans assistance offices; requiring educational fairness; appropriating money; amending Minnesota Statutes 2005 Supplement, sections 192.502, by adding subdivisions; 290.01, subdivision 19b; 290.091, subdivision 2; proposing coding for new law in Minnesota Statutes, chapters 181; 197.

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

Section 1. **[181.947] LEAVE FOR IMMEDIATE FAMILY MEMBERS OF MILITARY PERSONNEL INJURED OR KILLED IN ACTIVE SERVICE.**

Subdivision 1. **Definitions.** (a) The definitions in this subdivision apply to this section.

(b) "Active service" has the meaning given in section 190.05, subdivisions 5b and 5c.

(c) "Employee" means a person who performs services for compensation, in whatever form, for an employer.

(d) "Employer" means a person or entity located or doing business in this state and having one or more employees, and includes the state and all political or other governmental subdivisions of the state.

(e) "Immediate family member" means a person's grandparent, parent, legal guardian, sibling, child, grandchild, spouse, fiance, or fiancee.

Subd. 2. **Unpaid leave required.** An employer must grant a leave of absence without pay to an employee whose immediate family member, as a member of the United States armed forces, has been injured or killed while engaged in active service. The length of the leave shall be determined by the employee, but may not exceed five working days, unless agreed to by the employer. The purpose of the leave is to attend to an injured immediate family member or to attend services for and attend to the affairs of an immediate family member who has been killed.

Subd. 3. **Notice.** An employee must give as much notice to the employee's employer as practicable of the employee's intent to exercise the leave guaranteed by this section.

Subd. 4. **Relationship to other leave.** The length of leave provided under this section may be reduced by any period of paid leave provided by the employer. Nothing in this section prevents an employer from providing leave benefits in addition to those provided in this section or otherwise affects an employee's rights with respect to other employment benefits.

Subd. 5. **Posting of law.** The Department of Labor and Industry shall develop, with the assistance of interested business and veterans' organizations, an educational poster stating employees' rights under this section. The department shall make the poster available, upon request, to employers for posting on the employer's premises.

Subd. 6. **Individual remedies.** In addition to any other remedies provided by law, a person injured by a violation of this section may bring a civil action to recover any and all damages recoverable at law, together with costs and disbursements, including reasonable attorney fees, and may receive injunctive and other equitable relief as determined by a court.

Sec. 2. **[181.948] LEAVE TO ATTEND MILITARY CEREMONIES.**

Subdivision 1. **Definitions.** (a) For the purposes of this section, the following terms have the meaning given to them in this subdivision.

(b) "Employee" means a person who performs services for compensation, in whatever form, for an employer.

(c) "Employer" means a person or entity located or doing business in this state and having one or more employees, and includes the state and all political or other governmental subdivisions of the state.

(d) "Immediate family member" means a person's grandparent, parent, legal guardian, sibling, child, grandchild, spouse, fiance, or fiancee.

Subd. 2. **Unpaid leave required.** An employer shall grant a leave of absence without pay to an employee for the actual time necessary for an employee to attend a send-off or homecoming ceremony for an immediate family member who, as a member of the United States armed forces, has been mobilized for active service in support of a war or other national emergency. The leave required by this subdivision shall not exceed one day.

Sec. 3. Minnesota Statutes 2005 Supplement, section 192.502, is amended by adding a subdivision to read:

Subd. 3. **Unpaid leave to attend military ceremonies.** Employees are entitled to unpaid leave, as provided in section 181.948, to attend the send-off or homecoming ceremony of an immediate family member who, as a member of the United States armed forces, has been mobilized for active service in support of a war or other national emergency.

Sec. 4. Minnesota Statutes 2005 Supplement, section 192.502, is amended by adding a subdivision to read:

Subd. 4. **Unpaid leave for families of injured or deceased military members.** Employees are entitled to unpaid leave, as provided in section 181.947, when an immediate family member, as a member of the United States armed forces, has been injured or killed while engaged in active service.

Sec. 5. **[197.585] HIGHER EDUCATION VETERANS ASSISTANCE OFFICES.**

Each campus of the University of Minnesota and each institution within the Minnesota State Colleges and Universities system shall provide adequate space for a veterans assistance office to be administered by the commissioner of veterans affairs, and each private college and university in Minnesota is encouraged to provide adequate space for a veterans assistance office to be administered by the commissioner of veterans affairs. The veterans assistance office must provide information and assistance to veterans who are students or family members of students at the school regarding the availability of state, federal, local, and private resources.

Sec. 6. **[197.775] HIGHER EDUCATION FAIRNESS.**

Subdivision 1. **Definitions.** (a) The definitions in this subdivision apply to this section.

(b) "Commissioner" means the commissioner of veterans affairs.

(c) "State college or university" means a unit of the University of Minnesota or Minnesota State Colleges and Universities.

Subd. 2. **Recognition of courses.** (a) Minnesota State Colleges and Universities must recognize courses and award educational credits for courses that were part of a veteran's military training or service if the courses meet the standards of the American Council on Education or equivalent standards for awarding academic credits.

(b) The University of Minnesota and private colleges and universities in Minnesota are encouraged to recognize courses and award educational credits for courses that were part of a veteran's military training or service if the courses meet the standards of the American Council on Education or equivalent standards for awarding academic credits.

Subd. 3. **Tuition status.** A state college or university must treat a veteran as a Minnesota resident for purposes of determining the veteran's undergraduate tuition rate, and must treat a veteran as a Minnesota resident for purposes of determining the veteran's graduate school tuition rate if the veteran was a Minnesota resident on entering military service and starts attending the state college or university graduate program within two years of completing military service.

Subd. 4. **Delayed payment of tuition.** A state college or university may not assess late fees or other late charges for veterans who are eligible and have applied for federal educational assistance but have not yet received it, nor may it prevent these students from registering for a subsequent term because of outstanding tuition charges that arise from delayed federal payments. The state college or university may request without delay the amount of tuition above expected federal educational assistance and may require payment of the full amount of tuition owed by the veteran within 30 days of receipt of the expected federal educational assistance.

Sec. 7. Minnesota Statutes 2005 Supplement, section 290.01, subdivision 19b, is amended to read:

Subd. 19b. **Subtractions from federal taxable income.** For individuals, estates, and trusts, there shall be subtracted from federal taxable income:

(1) net interest income on obligations of any authority, commission, or instrumentality of the United States to the extent includable in taxable income for federal income tax purposes but exempt from state income tax under the laws of the United States;

(2) if included in federal taxable income, the amount of any overpayment of income tax to Minnesota or to any other state, for any previous taxable year, whether the amount is received as a refund or as a credit to another taxable year's income tax liability;

(3) the amount paid to others, less the amount used to claim the credit allowed under section 290.0674, not to exceed $1,625 for each qualifying child in grades kindergarten to 6 and $2,500 for each qualifying child in grades 7 to 12, for tuition, textbooks, and transportation of each qualifying child in attending an elementary or secondary school situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a resident of this state may legally fulfill the state's compulsory attendance laws, which is not operated for profit, and which adheres to the provisions of the Civil Rights Act

of 1964 and chapter 363A. For the purposes of this clause, "tuition" includes fees or tuition as defined in section 290.0674, subdivision 1, clause (1). As used in this clause, "textbooks" includes books and other instructional materials and equipment purchased or leased for use in elementary and secondary schools in teaching only those subjects legally and commonly taught in public elementary and secondary schools in this state. Equipment expenses qualifying for deduction includes expenses as defined and limited in section 290.0674, subdivision 1, clause (3). "Textbooks" does not include instructional books and materials used in the teaching of religious tenets, doctrines, or worship, the purpose of which is to instill such tenets, doctrines, or worship, nor does it include books or materials for, or transportation to, extracurricular activities including sporting events, musical or dramatic events, speech activities, driver's education, or similar programs. For purposes of the subtraction provided by this clause, "qualifying child" has the meaning given in section 32(c)(3) of the Internal Revenue Code;

(4) income as provided under section 290.0802;

(5) to the extent included in federal adjusted gross income, income realized on disposition of property exempt from tax under section 290.491;

(6) to the extent not deducted in determining federal taxable income by an individual who does not itemize deductions for federal income tax purposes for the taxable year, an amount equal to 50 percent of the excess of charitable contributions over $500 allowable as a deduction for the taxable year under section 170(a) of the Internal Revenue Code and under the provisions of Public Law 109-1;

(7) for taxable years beginning before January 1, 2008, the amount of the federal small ethanol producer credit allowed under section 40(a)(3) of the Internal Revenue Code which is included in gross income under section 87 of the Internal Revenue Code;

(8) for individuals who are allowed a federal foreign tax credit for taxes that do not qualify for a credit under section 290.06, subdivision 22, an amount equal to the carryover of subnational foreign taxes for the taxable year, but not to exceed the total subnational foreign taxes reported in claiming the foreign tax credit. For purposes of this clause, "federal foreign tax credit" means the credit allowed under section 27 of the Internal Revenue Code, and "carryover of subnational foreign taxes" equals the carryover allowed under section 904(c) of the Internal Revenue Code minus national level foreign taxes to the extent they exceed the federal foreign tax credit;

(9) in each of the five tax years immediately following the tax year in which an addition is required under subdivision 19a, clause (7), or 19c, clause (15), in the case of a shareholder of a corporation that is an S corporation, an amount equal to one-fifth of the delayed depreciation. For purposes of this clause, "delayed depreciation" means

the amount of the addition made by the taxpayer under subdivision 19a, clause (7), or subdivision 19c, clause (15), in the case of a shareholder of an S corporation, minus the positive value of any net operating loss under section 172 of the Internal Revenue Code generated for the tax year of the addition. The resulting delayed depreciation cannot be less than zero;

(10) job opportunity building zone income as provided under section 469.316;

(11) the amount of compensation paid to members of the Minnesota National Guard or other reserve components of the United States military for active service performed in Minnesota, excluding compensation for services performed under the Active Guard Reserve (AGR) program. For purposes of this clause, "active service" means (i) state active service as defined in section 190.05, subdivision 5a, clause (1); (ii) federally funded state active service as defined in section 190.05, subdivision 5b; or (iii) federal active service as defined in section 190.05, subdivision 5c, but "active service" excludes services performed exclusively for purposes of basic combat training, advanced individual training, annual training, and periodic inactive duty training; special training periodically made available to reserve members; and service performed in accordance with section 190.08, subdivision 3;

(12) the amount of compensation paid to Minnesota residents who are members of the armed forces of the United States or United Nations for active duty performed outside Minnesota;

(13) an amount, not to exceed $10,000, equal to qualified expenses related to a qualified donor's donation, while living, of one or more of the qualified donor's organs to another person for human organ transplantation. For purposes of this clause, "organ" means all or part of an individual's liver, pancreas, kidney, intestine, lung, or bone marrow; "human organ transplantation" means the medical procedure by which transfer of a human organ is made from the body of one person to the body of another person; "qualified expenses" means unreimbursed expenses for both the individual and the qualified donor for (i) travel, (ii) lodging, and (iii) lost wages net of sick pay, except that such expenses may be subtracted under this clause only once; and "qualified donor" means the individual or the individual's dependent, as defined in section 152 of the Internal Revenue Code. An individual may claim the subtraction in this clause for each instance of organ donation for transplantation during the taxable year in which the qualified expenses occur;

(14) in each of the five tax years immediately following the tax year in which an addition is required under subdivision 19a, clause (8), or 19c, clause (16), in the case of a shareholder of a corporation that is an S corporation, an amount equal to one-fifth of the addition made by the taxpayer under subdivision 19a, clause (8), or 19c, clause (16), in the

case of a shareholder of a corporation that is an S corporation, minus the positive value of any net operating loss under section 172 of the Internal Revenue Code generated for the tax year of the addition. If the net operating loss exceeds the addition for the tax year, a subtraction is not allowed under this clause;

(15) to the extent included in federal taxable income, compensation paid to a nonresident who is a service member as defined in United States Code, title 10, section 101(a)(5), for military service as defined in the Service Member Civil Relief Act, Public Law 108-189, section 101(2); ~~and~~

(16) international economic development zone income as provided under section 469.325~~.~~; and

(17) to the extent included in federal taxable income, a percentage, up to a maximum, of the amount received from a pension or other retirement pay from the government for service in the armed forces of the United States, regardless of whether the recipient served in the military. For taxable years beginning after December 31, 2005, and before January 1, 2007, the percentage is 25 percent and the maximum amount is $7,500; for taxable years beginning after December 31, 2006, and before January 1, 2008, the percentage is 50 percent and the maximum amount is $15,000; for taxable years beginning after December 31, 2007, and before January 1, 2009, the percentage is 75 percent and the maximum amount is $22,500; and for taxable years beginning after December 31, 2008, the percentage is 100 percent and there is no maximum amount.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2005.

Sec. 8. Minnesota Statutes 2005 Supplement, section 290.091, subdivision 2, is amended to read:

Subd. 2. **Definitions.** For purposes of the tax imposed by this section, the following terms have the meanings given:

(a) "Alternative minimum taxable income" means the sum of the following for the taxable year:

(1) the taxpayer's federal alternative minimum taxable income as defined in section 55(b)(2) of the Internal Revenue Code;

(2) the taxpayer's itemized deductions allowed in computing federal alternative minimum taxable income, but excluding:

(i) the charitable contribution deduction under section 170 of the Internal Revenue Code:

(A) for taxable years beginning before January 1, 2006, to the extent that the deduction exceeds 1.0 percent of adjusted gross income;

(B) for taxable years beginning after December 31, 2005, to the full extent of the deduction.

For purposes of this clause, "adjusted gross income" has the meaning given in section 62 of the Internal Revenue Code;

(ii) the medical expense deduction;

(iii) the casualty, theft, and disaster loss deduction; and

(iv) the impairment-related work expenses of a disabled person;

(3) for depletion allowances computed under section 613A(c) of the Internal Revenue Code, with respect to each property (as defined in section 614 of the Internal Revenue Code), to the extent not included in federal alternative minimum taxable income, the excess of the deduction for depletion allowable under section 611 of the Internal Revenue Code for the taxable year over the adjusted basis of the property at the end of the taxable year (determined without regard to the depletion deduction for the taxable year);

(4) to the extent not included in federal alternative minimum taxable income, the amount of the tax preference for intangible drilling cost under section 57(a)(2) of the Internal Revenue Code determined without regard to subparagraph (E);

(5) to the extent not included in federal alternative minimum taxable income, the amount of interest income as provided by section 290.01, subdivision 19a, clause (1); and

(6) the amount of addition required by section 290.01, subdivision 19a, clauses (7), (8), and (9);

less the sum of the amounts determined under the following:

(1) interest income as defined in section 290.01, subdivision 19b, clause (1);

(2) an overpayment of state income tax as provided by section 290.01, subdivision 19b, clause (2), to the extent included in federal alternative minimum taxable income;

(3) the amount of investment interest paid or accrued within the taxable year on indebtedness to the extent that the amount does not exceed net investment income, as defined in section 163(d)(4) of the Internal Revenue Code. Interest does not include amounts deducted in computing federal adjusted gross income; and

(4) amounts subtracted from federal taxable income as provided by section 290.01, subdivision 19b, clauses (9) to ~~(16)~~ (17).

In the case of an estate or trust, alternative minimum taxable income must be computed as provided in section 59(c) of the Internal Revenue Code.

(b) "Investment interest" means investment interest as defined in section 163(d)(3) of the Internal Revenue Code.

(c) "Tentative minimum tax" equals 6.4 percent of alternative minimum taxable income after subtracting the exemption amount determined under subdivision 3.

(d) "Regular tax" means the tax that would be imposed under this chapter (without regard to this section and section 290.032), reduced by the sum of the nonrefundable credits allowed under this chapter.

(e) "Net minimum tax" means the minimum tax imposed by this section.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2005.

Sec. 9. **APPROPRIATIONS.**

Subdivision 1. **State soldiers' assistance fund.** $3,000,000 is appropriated in fiscal year 2007 from the general fund to the commissioner of veterans affairs to be deposited in the state soldiers' assistance fund established in Minnesota Statutes, section 197.03. The appropriations in this subdivision are in addition to other appropriations made to the commissioner of veterans affairs.

Subd. 2. **Centralized Web site for veterans services.** $200,000 is appropriated in fiscal year 2007 from the general fund to the commissioner of veterans affairs to fund a veterans service coordinator and a veterans assistance Web manager within the Department of Veterans Affairs, whose mission is to create a centralized Web site containing information on all state, federal, local, and private agencies and organizations that provide goods or services to veterans or their families.

Subd. 3. **County veterans service officers service enhancement grants.** $3,000,000 is appropriated in fiscal year 2007 from the general fund to the commissioner of veterans affairs to provide grants to counties for enhancing the benefits, programs, and services they provide to veterans. The commissioner, in consultation with the County Veterans Service Officers Association, shall establish grants based on objective benchmarks and standards. A county may not reduce its veterans service office budget by any amount received as a grant under this section. This grant program is in addition to grants made under Minnesota Statutes, section 197.608.

Subd. 4. **Higher education veterans assistance offices.** (a) $2,600,000 is appropriated in fiscal year 2007 from the general fund for the purposes of Minnesota Statutes, section 197.585.

(b) Of the amount in paragraph (a), $2,500,000 is to the commissioner of veterans affairs for the veterans assistance offices under Minnesota Statutes, section 197.585. The commissioner, in consultation with the Office of Higher Education, shall determine the most appropriate method of allocating this appropriation to align with the needs of the students at Minnesota State Colleges and Universities and the University of Minnesota who are veterans. Methods may include, but are not limited to, providing grants for work study positions and providing central liaison and coordination staff to enhance the responsiveness of higher education institutions to students who are veterans. The commissioner shall designate a liaison to the University of Minnesota and a liaison to the private colleges and universities in Minnesota for the purposes of Minnesota Statutes, section 197.585.

(c) Of the amount in paragraph (a), $100,000 is to the Board of Trustees of the Minnesota State Colleges and Universities to fund a systemwide coordinator to facilitate the provision of assistance to veterans at Minnesota State Colleges and Universities campuses under Minnesota Statutes, section 197.585.

Sec. 10. **REVISOR'S INSTRUCTION.**

The revisor of statutes shall insert a first grade headnote after Minnesota Statutes, section 181.946, that reads "LEAVE FOR FAMILIES OF MOBILIZED MILITARY MEMBERS."

Sec. 11. **EFFECTIVE DATE.**

Sections 1 and 4 are effective the day following final enactment and apply to the immediate family members of military personnel injured or killed on or after that date, as well as to the immediate family members of military personnel who, on the effective date, are recovering from injuries that occurred before that date.

Senators Kelley, Clark, Skoglund, Foley and Dibble introduced–

S.F. No. 2912: Referred to the Committee on Education.

A bill for an act

relating to education finance; reducing elementary and secondary class sizes through a voluntary, incentive-based funding program; appropriating money; amending Minnesota Statutes 2004, sections 120B.36, subdivision 1; 126C.20; proposing coding for new law in Minnesota Statutes, chapter 126C; repealing Minnesota Statutes 2004, section 126C.12.

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

Section 1. Minnesota Statutes 2004, section 120B.36, subdivision 1, is amended to read:

Subdivision 1. **School performance report cards.** (a) The commissioner shall use objective criteria based on levels of student performance to identify four to six designations applicable to high and low performing public schools. The objective criteria shall include at least student academic performance, school safety, <u>student-to-teacher ratios,</u> and staff characteristics, with a value-added growth component added by the 2006-2007 school year.

(b) The commissioner shall develop, annually update, and post on the department Web site school performance report cards. A school's designation must be clearly stated on each school performance report card.

(c) The commissioner must make available the first school designations and school performance report cards by November 2003, and during the beginning of each school year thereafter.

(d) A school or district may appeal in writing a designation under this section to the commissioner within 30 days of receiving the designation. The commissioner's decision to uphold or deny an appeal is final.

(e) School performance report cards are nonpublic data under section 13.02, subdivision 9, until not later than ten days after the appeal procedure described in paragraph (d) concludes. The department shall annually post school performance report cards to its public Web site no later than September 1.

EFFECTIVE DATE. This section is effective for report cards issued after July 1, 2006.

Sec. 2. **[126C.105] CLASS SIZE REDUCTION PROGRAM.**

Subdivision 1. **Definition.** "Classroom teacher" means a public employee licensed by the Board of Teaching who is authorized to teach all subjects to children in any grade in kindergarten through grade 12 and whose duties are full-time regular classroom instruction, excluding a teacher for whom federal aids are received or for whom categorical aids are received under section 125A.76 or who is an itinerant teacher or provides instruction outside of the regular classroom. Except as provided in section 122A.68, subdivision 6, classroom teacher does not include supervisory and support personnel defined in section 122A.15.

Subd. 2. **Full funding eligibility.** To qualify for funding under this section, a school district shall maintain in each participating class an annual average class size not exceeding the ratios established in subdivision 3 during the instructional time qualifying the class for funding.

Subd. 3. **Class size ratios.** The class size ratios are as follows:

(1) for students in kindergarten to grade 3, a school district shall maintain a ratio of not more than 20 students for each classroom teacher;

(2) for students in grades 4 to 6, a school district shall maintain a ratio of not more than 22 students for each classroom teacher;

(3) for students in grades 7 to 9 in English, mathematics, science, and social studies classes, a school district shall maintain a ratio of not more than 25 students for each classroom teacher;

(4) for students in grades 10 to 12 in English, mathematics, science, and social studies classes, a school district shall maintain a ratio of not more than 28 students for each classroom teacher; and

(5) for students in grades 7 to 12, in classrooms that are designated as laboratory classrooms, a school district shall maintain a ratio of not more than 24 students for each classroom teacher.

Subd. 4. **Class size determination.** A school district's class size may exceed the class size ratios established in subdivision 3 on a particular school day, but the average class size for the school year must not exceed the maximum class size.

Subd. 5. **Revenue.** A school district that certifies to the Department of Education that it is eligible for full funding under subdivision 2 is eligible for class size reduction revenue of $500 times the number of elementary students in each qualifying classroom in kindergarten through grade 6, and $100 times the number of secondary students.

Subd. 6. **Use of revenue.** Revenue received through the class size reduction program at the secondary level shall be used to maintain the ratios specified in subdivision 3, clauses (3) and (4), for English, mathematics, science, and social studies classrooms.

Subd. 7. **State aid.** Class size reduction revenue is provided entirely through state aid.

EFFECTIVE DATE. This section is effective for revenue for fiscal years 2007 and later.

Sec. 3. Minnesota Statutes 2004, section 126C.20, is amended to read:

126C.20 ANNUAL GENERAL EDUCATION AID APPROPRIATION.

There is annually appropriated from the general fund to the department the amount necessary for general education aid and class size reduction aid under section 126C.105. This amount must be reduced by the amount of any money specifically appropriated for the same purpose in any year from any state fund.

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2007.

Sec. 4. **APPROPRIATION.**

$300,000,000 in fiscal year 2007 is appropriated from the general fund to the commissioner of education for class size reduction revenue according to section 2.

Sec. 5. **REPEALER.**

Minnesota Statutes 2004, section 126C.12, is repealed.

126C.12 LEARNING AND DEVELOPMENT REVENUE AMOUNT AND USE.

Subdivision 1. **Revenue.** Of a district's general education revenue for fiscal year 2000 and thereafter each school district shall reserve an amount equal to the formula allowance multiplied by the following calculation:

(1) the sum of adjusted marginal cost pupils in average daily membership, according to section 126C.05, subdivision 5, in kindergarten times .057; plus

(2) the sum of adjusted marginal cost pupils in average daily membership, according to section 126C.05, subdivision 5, in grades 1 to 3 times .115; plus

(3) the sum of adjusted marginal cost pupils in average daily membership, according to section 126C.05, subdivision 5, in grades 4 to 6 times .06.

Subd. 2. **Definitions.** (a) "Classroom teacher" means a public employee licensed by the board of teaching who is authorized to teach all subjects to children in any grade in kindergarten through grade 6 and whose duties are full-time regular classroom instruction, excluding a teacher for whom federal aids are received or for whom categorical aids are received under section 125A.76 or who is an itinerant teacher or provides instruction outside of the regular classroom. Except as provided in section 122A.68, subdivision 6, classroom teacher does not include supervisory and support personnel defined in section 122A.15. A classroom teacher whose duties are less than full-time instruction must be included as an equivalent only for the number of hours of instruction in kindergarten through grade 3.

(b) "Class size" means the districtwide ratio at each grade level of the number of full-time students in kindergarten through grade 3 served at least 40 percent of the time in regular classrooms to the number of full-time classroom teachers in kindergarten through grade 3, determined as of October 1 of each school year.

Subd. 3. **Instruction contact time.** Instruction may be provided by a classroom teacher or by a team of classroom teachers, or by a teacher resident supervised by a classroom teacher. The district must maximize classroom teacher to learner average instructional contact time in the core subjects of reading and mathematics.

Subd. 4. **Revenue use.** (a) Revenue must be used to reduce and maintain the district's average class size in kindergarten through grade 3 to a level of 17 to 1 on average in each of the respective grades.

(b) A district must not increase the districtwide class sizes in other grades as a result of reducing class sizes in kindergarten through grade 3. Revenue may not be used to provide instructor preparation. A district may use a portion of the revenue reserved under this section to employ up to the same number of full-time equivalent education assistants or aides as the district employed during the 1992-1993 school year under Minnesota Statutes 1992, section 124.331, subdivision 2, through fiscal year 2002. Beginning in fiscal year 2003, class size reduction revenue may only be reserved to employ classroom teachers contributing to lower class sizes in kindergarten through grade 3.

Subd. 5. **Additional revenue use.** If the board of a district determines that the district has achieved and is maintaining the class sizes specified in subdivision 4, the board may use the revenue to reduce class size in grades 4, 5, and 6, provide all-day, everyday kindergarten, prepare and use individualized learning plans, improve program offerings, purchase instructional material, services, or technology, or provide staff development needed for reduced class sizes.

Subd. 6. **Annual report.** By December 1 of each year, districts receiving revenue under subdivision 1 shall make available to the public a report on the amount of revenue the district has received and the use of the revenue. This report shall be in the form and manner determined by the commissioner and shall include the district average class sizes in kindergarten through grade 6 as of October 1 of the current school year and the class sizes for each site serving kindergarten through grade 6 students in the district. A copy of the report shall be filed with the commissioner by December 15.

Senators Kiscaden, Senjem, Vickerman, Gerlach and Marko introduced–

S.F. No. 3164: Referred to the Committee on Education.

A bill for an act

relating to education; modifying the process for districts to follow when obtaining integration revenue; emphasizing integration activities that lead to measurable goals; requiring the Department of Education to provide model integration plans and other assistance to school districts; amending Minnesota Statutes 2004, section 124D.86, subdivisions 1a, 4, by adding subdivisions; repealing Minnesota Statutes 2004, section 124D.86, subdivision 1b.

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

Section 1. Minnesota Statutes 2004, section 124D.86, subdivision 1a, is amended to read:

Subd. 1a. **Budget approval process.** (a) Each year before a district receives any revenue under subdivision 3, ~~clause (4), (5), or (6),~~ the district must submit to the Department of Education, for its review and approval a budget detailing the costs of the desegregation/integration plan filed under Minnesota Rules, parts 3535.0100 to 3535.0180. Notwithstanding chapter 14, the department may develop criteria for budget approval. The department shall consult with the Desegregation Advisory Board in developing these criteria. The criteria developed by the department should address, at a minimum, the following:

(1) budget items cannot be approved unless they are part of any overall desegregation plan approved by the district for isolated sites or by the Multidistrict Collaboration Council and participation individual members;

(2) the budget must indicate how revenue expenditures will be used specifically to support increased opportunities for interracial contact;

(3) components of the budget to be considered by the department, including staffing, curriculum, transportation, facilities, materials, and equipment and reasonable planning costs, as determined by the department; and

(4) if plans are proposed to enhance existing programs, the total budget being appropriated to the program must be included, indicating what part is to be funded using integration revenue and what part is to be funded using other revenues.

(b) The Department of Education must not approve a district's integration budget unless that budget is built upon a plan that provides a method for the district to evaluate the effectiveness of its plan.

Sec. 2. Minnesota Statutes 2004, section 124D.86, is amended by adding a subdivision to read:

Subd. 1c. **Model plans.** The Department of Education must develop model integration plans and, upon request, assist school districts in designing and implementing integration plans that have clear goals. The department must also develop a Web-based list of best practices and integration activities that are both measurable and effective.

Sec. 3. Minnesota Statutes 2004, section 124D.86, is amended by adding a subdivision to read:

Subd. 1d. **Plan components.** Plans submitted by each district under Minnesota Rules, parts 3535.0160 and 3535.0170, must be approved by the district's board each year before integration revenue will be awarded. If a district is applying for revenue for a plan that is part of a multidistrict council, the individual district shall not receive revenue unless it ratifies the plan adopted by its multidistrict council or approves a modified plan with a written explanation of any modifications. Each plan shall contain:

(1) an identification of the integration issues at the sites or districts covered by Minnesota Rules, parts 3535.0100 to 3535.0180;

(2) a description of the community outreach that preceded the integration plan, such that the commissioner can determine whether the membership of the planning councils complied with the requirements of Minnesota Rules, parts 3535.0100 to 3535.0180; and

(3) the specific goals of the integration plan, a list of measurable objectives, and a description of the assessment system to be used to determine progress toward meeting the specific goals of the plan.

By June 30 of the subsequent fiscal year, each district shall report to the commissioner in writing about the extent to which the integration goals identified in the plan were met and about the results of the student survey required in subdivision 1e.

Sec. 4. Minnesota Statutes 2004, section 124D.86, is amended by adding a subdivision to read:

<u>Subd. 1e.</u> **<u>Student survey.</u>** <u>For those parts of a school district's integration plan where the goals are subjective and are based on student attitudes regarding diversity, openness to students of color, progress toward reducing discriminatory acts, and progress toward reducing cultural, ethnic, and linguistic barriers, the school district is required to conduct an annual, independent survey of student attitudes.</u>

Sec. 5. Minnesota Statutes 2004, section 124D.86, subdivision 4, is amended to read:

Subd. 4. **Integration levy.** A district may levy an amount equal to ~~37 percent for fiscal year 2003, 23 percent for fiscal year 2004, and~~ 30 percent ~~for fiscal year 2005 and thereafter~~ of the district's integration revenue as defined in subdivision 3.

Sec. 6. **<u>REPEALER.</u>**

<u>Minnesota Statutes 2004, section 124D.86, subdivision 1b, is repealed.</u>

Sec. 7. **<u>EFFECTIVE DATE.</u>**

<u>Sections 1 to 6 are effective for plans filed on or after July 1, 2006.</u>

124D.86 INTEGRATION REVENUE.

Subd. 1b. **Plan components.** Plans submitted by each district under Minnesota Rules, parts 3535.0160 and 3535.0170, must be approved by the district's board each year before integration revenue will be awarded. If a district is applying for revenue for a plan that is part of a multidistrict council, the individual district shall not receive revenue unless it ratifies the plan adopted by its multidistrict council or approves a modified plan with a written explanation of any modifications. Each plan shall contain:

(1) an identification of the integration issues at the sites or districts covered by Minnesota Rules, parts 3535.0100 to 3535.0180;

(2) a description of the community outreach that preceded the integration plan, such that the commissioner can determine whether the membership of the planning councils complied with the requirements of Minnesota Rules, parts 3535.0100 to 3535.0180; and

(3) the specific goals of the integration plan.

By June 30 of the subsequent fiscal year, each district shall report to the commissioner in writing about the extent to which the integration goals identified in the plan were met.

Senators Rosen, Hottinger and Chaudhary introduced--

S.F. No. 2124: Referred to the Committee on Education.

A bill for an act

relating to education; providing for compulsory instruction of children between five and 16 years of age; making special provisions for children under age 7; amending Minnesota Statutes 2004, section 120A.22, subdivisions 5, 6.

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

Section 1. Minnesota Statutes 2004, section 120A.22, subdivision 5, is amended to read:

Subd. 5. [AGES AND TERMS.] (a) Every child between ~~seven~~ <u>five</u> and 16 years of age must receive instruction. ~~Every child-under-the-age-of-seven-who-is-enrolled-in-a-half-day kindergarten,-or-a-full-day-kindergarten-program-on-alternate days,-or-other-kindergarten-programs-shall-receive-instruction. Except-as-provided-in-subdivision-6,-a-parent-may-withdraw-a child-under-the-age-of-seven-from-enrollment-at-any-time.~~

(b) A school district by annual board action may require children ~~subject-to-this-subdivision~~ <u>between seven and 16 years of age</u> to receive instruction in summer school. A district that acts to require children to receive instruction in summer school shall establish at the time of its action the criteria for determining which children must receive instruction.

Sec. 2. Minnesota Statutes 2004, section 120A.22, subdivision 6, is amended to read:

Subd. 6. [CHILDREN UNDER SEVEN.] (a) ~~Once-a-pupil-under the-age-of-seven-is-enrolled-in-kindergarten-or-a-higher-grade~~

~~in-a-public-school,-the-pupil-is-subject-to-the-compulsory-attendance-provisions-of-this-chapter-and-section-120A.34,-unless-the-board-of-the-district-in-which-the-pupil-is-enrolled-has-a-policy-that-exempts-children-under-seven-from-this-subdivision.~~

~~(b)-In-a-district-in-which-children-under-seven-are-subject-to-compulsory-attendance-under-this-subdivision,-paragraphs-(c)-to-(e)-apply.~~

~~(c)~~ A parent or guardian may withdraw ~~the~~ a pupil under the age of seven from enrollment in the school for good cause by notifying the district. Good cause includes, but is not limited to, enrollment of the pupil in another school, as defined in subdivision 4, or the immaturity of the child.

~~(d)~~ (b) When ~~the~~ a pupil under the age of seven enrolls, the enrolling official must provide the parent or guardian who enrolls the pupil with a written explanation of the provisions of this subdivision.

~~(e)~~ (c) A pupil under the age of seven who is withdrawn from enrollment in the public school under paragraph ~~(c)~~ (a) is no longer subject to the compulsory attendance provisions of this chapter.

~~(f)-In-a-district-that-had-adopted-a-policy-to-exempt-children-under-seven-from-this-subdivision,-the-district's-chief-attendance-officer-must-keep-the-truancy-enforcement-authorities-supplied-with-a-copy-of-the-board's-current-policy-certified-by-the-clerk-of-the-board.~~

[EFFECTIVE DATE.] This section is effective beginning with the 2006-2007 school year.

Senator .... moves to amend S.F. No. 2954 as follows:

Page 1, delete section 2

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

Describing School Finances Committee
Revision of School District Financial Reports

Committee members: Tom Berge (Minnetonka ISD), Scott Croonquist (AMSD), Ward Eames, Alan Hopeman (Wayzata ISD), Barbara Klaas, Jim Rhodes (Hopkins ISD), Charles Selcer, Yvonne Selcer, Katy Sen (AMSD), Dan Sigurdson

Preface

What does it cost to educate a student in a Minnesota Public School District and how should that cost be portrayed on a school district's financial statement? Annually school districts publish budget reports and audit reports that are intended to communicate such pertinent financial data. However, readers familiar with private sector financial reports express frustration with the format and terminology used in these reports.

The purpose of the enclosed report is to bridge the gap between the financial statements commonly used by school districts and the financial statements familiar to the business community. An important part of bridging the gap is to re-order school district financial data based upon the private sector definition of "Cost of Goods Sold" into a category called "Cost of Teaching and Learning". A challenge exists in attempting to bridge that gap, both in terms of format and terminology. To begin it is important to understand the very different purpose of the financial report for a governmental body as compared to that of a private sector business.

The premise of governmental accounting is to accurately track the appropriations made by the legislative entity (legislature, board of supervisors, city council, or school board) to make certain funds are expended as appropriated. Resources are either provided by levy of taxes, by collection of fees, or by receipt of financial aid provided by a higher governmental level.

Taxes levied or aids received are tracked in account groups called funds. Every governmental entity has a general fund to track operating expenses. Federal and state law also requires the establishment of special funds (in a school district examples are food service, community education, debt service, construction) to track revenue collected for a specific purpose. Each fund is a separate accounting entity having an operating statement and balance sheet. Resources in categorical funds cannot be transferred to the general fund to subsidize revenue. For example, funds available in a food service fund or community education fund cannot be transferred to the general fund to subsidize an increase in salaries for staff.

The accounting system in a business is designed to report on the financial management and the profitability of that business. The governmental accounting concept of "fund accounting" is foreign in the private sector.

A business is a going concern formed for the purpose of generating revenue. The accounting system is designed to accurately record revenue earned and to match that revenue with the expenses incurred to earn it. The purpose of the private sector financial report is to reflect the success of the owners or management in generating a profit and to report on its financial management. Unlike a governmental report, which is to report on the purposes for which tax revenue is used and the expenditure of appropriations, the financial statement for a private sector business is to measure the effectiveness of operations. The balance sheet, profit and loss statement, and statement of cash flow each tell the reader specific information about the business entity. The statements can tell the reader not only the profitability of operations, but also it can tell much about financial solvency, resources available for growth, financial management decisions, and the source of funds used to operate the business.

The chart of accounts called the Uniform Financial Accounting and Reporting System (UFARS) was established for Minnesota Public Schools by the state to report on the operations of local school districts. The system utilizes a seventeen-digit account number to track how public funds are utilized to operate local school districts. It essentially is a cost accounting system that, for example, will provide information on the cost of the math program or the science program or will show the cost of providing student transportation. The system has its strengths and limitations. All districts are required to utilize the system with each district at the end of the fiscal year electronically reporting the results of operations to the state. The system is closely monitored by the Department of Education with frequent workshops conducted for local school accountants to assure consistency in the reporting. The financial reports from the system, however, are highly structured to reflect the amount spent on programs such as special education, regular education, vocational education, administration, transportation, etc. or the amount spent on salaries, benefits, or supplies. No attempt is made by school districts or by the state to reorganize the financial data in a format that more closely parallels the private sector in an effort to better communicate the cost of providing teaching and learning for students.

Financial Statements:
It is the intent of this report to make that transition by re-ordering the information provided by the UFARS system into a format that more closely parallels private sector reporting and better communicates the financial operations of a local Minnesota school district. Key to this transition is to re-order school district financial data based upon the private sector definition of "Cost of Goods Sold" into a category called "Cost of Teaching and Learning".

Cost of Goods Sold (CGS) are the costs directly related to the purchase or production of whatever a company sells. Costs typically include not only direct labor and material costs but also associated overhead costs such as plant operation and maintenance, plant management, employee benefits, delivery costs (transportation), insurance, supplies, etc.

In the case of a school district, the product is education. Therefore, based on a parallel with the above private sector definition for Cost of Goods Sold, the Cost of Teaching and Learning includes all costs directly related to educating the student. This would incorporate not only classroom teachers but also support staff such as paraprofessionals and secretaries, building principals, benefits, supplies, building operations (custodians and utilities) and building maintenance costs. It would also include curriculum development and staff development expenditures. On the attached financial statement, everything that occurs within a school district associated with the cost of providing teaching and learning is included within this category, similar to the definition of "Cost of Goods Sold" on a private sector financial statement. Without these expenditures, the educational process would not exist for the students.

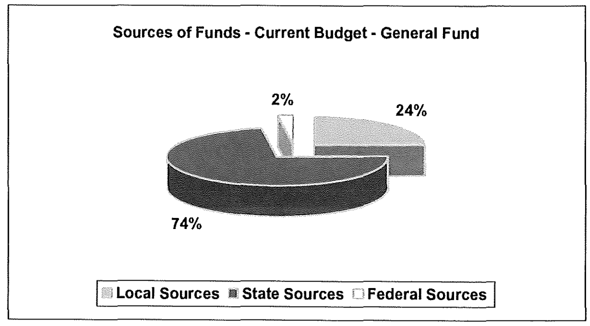
Page one of the financial report is attached for each of the following schools:

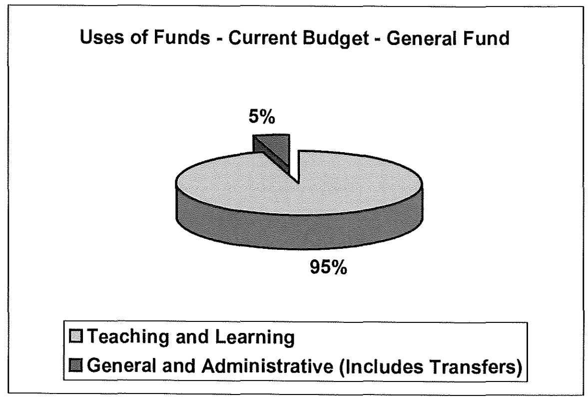
- Austin
- Faribault
- Roseville
- Saint Paul
- Spring Lake Park

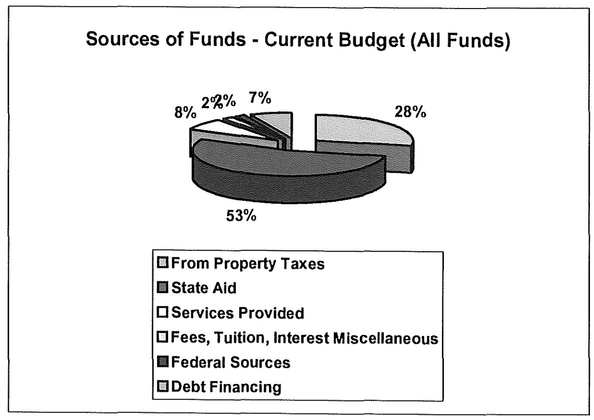
Minnetonka ISD #276
Financial Summary
Three-Year Period Ending June 30, 2005

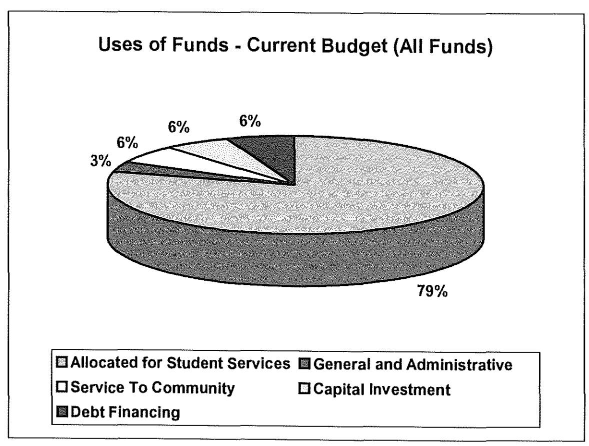
Sources and Uses of Funds	Actual 03-04	Actual 04-05	Budget 05-06
General Fund			
Sources:			
Local Sources	21,023,131	15,757,304	15,963,334
State Sources	43,477,640	48,105,398	48,072,359
Federal Sources	1,245,099	1,379,519	1,493,223
Total Sources	**65,745,869**	**65,242,221**	**65,528,916**
Uses:			
Teaching and Learning	62,815,033	62,992,032	62,474,381
General and Administrative (Includes Transfers)	3,270,972	2,928,842	3,020,432
Total Uses	**66,086,005**	**65,920,874**	**65,494,813**
Net Surplus / (Deficit)	**(340,136)**	**(678,653)**	**34,103**
Ending Fund Balance	**6,272,138**	**5,593,486**	**5,627,589**
Other Funds			
Food and Nutrition Services			
Total Sources	3,262,976	3,314,378	3,290,067
Total Uses	3,436,382	3,493,966	3,281,111
Net Surplus / (Deficit)	**(173,407)**	**(179,589)**	**8,956**
Ending Fund Balance	**757,746**	**578,158**	**587,114**
Community Education and Services			
Total Sources	5,790,932	5,601,512	5,427,426
Total Uses	5,667,806	5,599,324	5,389,859
Net Surplus / (Deficit)	**123,126**	**2,188**	**37,567**
Ending Fund Balance	**930,181**	**932,369**	**969,936**
Capital Projects			
Total Sources	7,203,251	10,209,693	11,372,215
Total Uses	6,444,713	12,597,500	9,846,842
Net Surplus / (Deficit)	**758,538**	**(2,387,807)**	**1,525,373**
Ending Fund Balance	**981,522**	**(1,406,285)**	**119,088**
Debt Financing			
Total Sources	4,786,656	5,569,904	5,213,476
Total Uses	4,882,888	5,878,913	5,205,993
Net Surplus / (Deficit)	**(96,232)**	**(309,009)**	**7,483**
Ending Fund Balance	**1,113,478**	**804,468**	**811,951**
Combined Funds			
Total Sources	86,789,684	89,937,709	90,832,100
Total Uses (Including Transfers)	86,517,794	93,490,579	89,218,618
Net Surplus / (Deficit)	**271,890**	**(3,552,870)**	**1,613,482**
Ending Fund Balance	**10,055,066**	**6,502,196**	**8,115,678**

Key Statistics and Ratios		Actual 03-04	Actual 04-05	Budget 05-06
Enrollment Statistics				
Total Enrollment		7,683	7,714	7,616
Enrollment Growth Rate				-0.6%
Per Pupil Sources of Funds - General Fund		$8,557	$8,458	$8,604
Year-to-Year Growth Rate				0.9%
Per Pupil Expenditures - Teaching and Learning		$8,176	$8,166	$8,203
Year-to-Year Growth Rate				0.2%
Per Pupil Expenditures - General and Administrative		$426	$380	$397
Year-to-Year Growth Rate				2.2%
Class Size:	Elementary K-3	20.9	20.6	21.0
	Elementary 4-5	25.4	25.4	24.9
	Middle Level 6-8 (est)	29.1	29.1	29.1
	High School 9-12 (est)	28.3	28.3	28.3
Financial Statistics				
Total Sources of Funds - General Fund		$65,745,869	$65,242,221	$65,528,916
Year-to-Year Growth Rate				-0.2%
Total Uses of Funds - General Fund		$66,086,005	$65,920,874	$65,494,813
Year-to-Year Growth Rate				-0.4%









MINNETONKA ISD #276
REVENUE AND EXPENDITURE STATEMENT
FOR THREE YEARS ENDING JUNE 30, 2005

	Actual 03-04	Actual 04-05	Budget 05-06	Change Dollars	Change Percent
General Fund:					
Sources of Revenue					
Local Sources:					
Property Taxes Approved by Voters	$ 12,191,000	$ 12,016,018	$ 12,170,755	$ 154,737	1.29%
Other Property Taxes	$ 7,780,116	$ 2,176,821	$ 2,037,429	$ (139,392)	-6.40%
Fees, Tuition, Interest, Misc.	$ 1,052,015	$ 1,564,465	$ 1,755,150	190,685	12.19%
Total Local Sources	$ 21,023,131	$ 15,757,304	$ 15,963,334	$ 206,030	1.31%
State Sources:					
Basic State Formula Allowance	$ 37,140,343	$ 41,258,680	$ 41,993,304	$ 734,624	1.78%
Special Education	$ 5,688,743	$ 6,113,514	$ 5,736,154	(377,360)	-6.17%
Other State Aid	$ 648,553	$ 733,205	$ 342,901	(390,304)	-53.23%
Total State Sources	$ 43,477,640	$ 48,105,398	$ 48,072,359	$ (33,039)	-0.07%
Federal Sources:					
Special Education Aid and Other Grants	$ 1,245,099	$ 1,379,519	$ 1,493,223	$ 113,704	8.24%
Total Source of Revenue - Operating Funds	$ 65,745,869	$ 65,242,221	$ 65,528,916	$ 286,695	0.44%
Uses of Revenue					
Cost of Providing Teaching and Learning:					
Leadership	$ 2,132,447	$ 2,171,874	$ 2,002,552	$ (169,322)	-7.80%
Professional Teaching Personnel	29,201,019	29,492,893	30,057,185	564,292	1.91%
Classroom Support Staff	4,019,747	4,119,368	4,210,447	91,079	2.21%
Benefits and Payroll Taxes	9,348,083	9,500,165	9,766,504	266,339	2.80%
Tuition Payments	2,549,459	2,624,681	2,676,136	51,455	1.96%
Classroom Utilities and Custodial Services	5,020,517	5,016,897	4,792,211	(224,686)	-4.48%
Purchased and Contracted Services	989,487	1,048,495	921,743	(126,752)	-12.09%
Supplies	698,123	585,597	498,524	(87,073)	-14.87%
Textbooks & Library Books	323,191	283,597	190,490	(93,107)	-32.83%
Equipment and Facility Maintenance	3,764,195	3,084,183	2,217,277	(866,906)	-28.11%
Lease of Instructional Space	815,346	801,042	711,223	(89,819)	-11.21%
Transportation	3,711,888	3,888,046	3,788,389	(99,657)	(0)
Other	241,529	375,194	641,701	266,507	71.03%
Total Cost to Provide Teaching and Learning	$ 62,815,033	$ 62,992,032	$ 62,474,381	$ (517,651)	-0.82%
Percent of Budget	95.1%	95.6%	95.4%		
General and Administrative Expenses:					
Personnel Expenses	$ 2,212,010	$ 1,974,277	$ 2,079,904	$ 105,627	5.35%
Purchased and Contracted Services	618,055	559,560	527,445	(32,115)	-5.74%
Supplies, Misc.	191,751	160,375	264,146	103,771	64.71%
Equipment and Facility Maintenance	79,981	65,532	47,112	(18,420)	-28.11%
Utilities, Cleaning & Maintenance	106,675	106,598	101,824	(4,774)	-4.48%
Total General and Administrative Expenses	$ 3,208,472	$ 2,866,342	$ 3,020,432	$ 154,090	5.38%
Percent of Budget	4.9%	4.4%	4.6%		
Total Use of Revenue - Operating Funds	$ 66,023,505	$ 65,858,374	$ 65,494,813	$ (363,561)	-0.55%
Sources Over (Under) Uses	$ (277,636)	$ (616,153)	$ 34,103	$ 650,256	
Other Financing Sources (Uses)					
Transfers In (Out)	$ (62,500)	$ (62,500)	$ -		
Net Change in Funds	$ (340,136)	$ (678,653)	$ 34,103		
Total Fund Balance					
Beginning of Year	$ 6,612,274	$ 6,272,138	$ 5,593,486		
End of Year	$ 6,272,138	$ 5,593,486	$ 5,627,589		

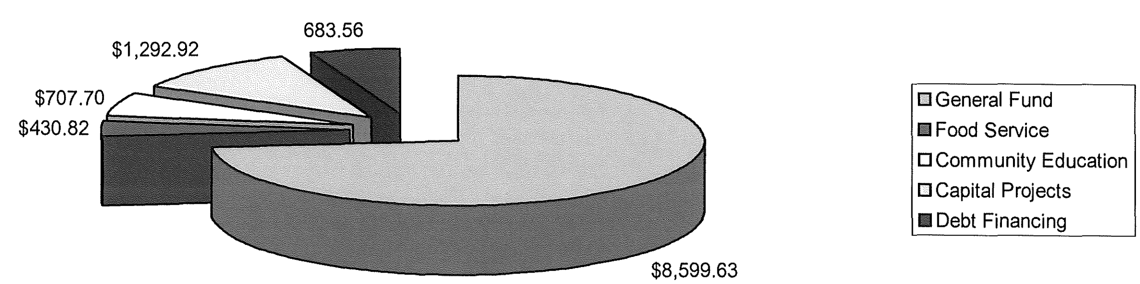
MINNETONKA ISD #276
REVENUE AND EXPENDITURE STATEMENT
FOR THREE YEARS ENDING JUNE 30, 2005

	Actual 03-04	Actual 04-05	Budget 05-06	Change Dollars	Change Percent
Other Revenue and Expenses;					
Food Service Fund					
Revenue from Meal Sales & Services	$ 2,866,242	$ 2,893,085	$ 2,877,525	$ (15,560)	-0.54%
Federal & State Aid	$ 396,734	$ 421,292	$ 412,542	$ (8,750)	-2.08%
Total Sources	$ 3,262,976	$ 3,314,378	$ 3,290,067	$ (24,311)	-0.73%
Service to Students and Staff	$ 3,436,382	$ 3,493,966	$ 3,281,111	$ (212,855)	-6.09%
Difference	$ (173,407)	$ (179,589)	$ 8,956		
Beginning Fund Balance	$ 931,153	$ 757,746	$ 578,158		
Ending Fund Balance	$ 757,746	$ 578,158	$ 587,114		
Community Service Fund					
Revenue from Services Provided	$ 4,399,617	$ 4,287,216	$ 4,069,862	$ (217,354)	-5.07%
Property Taxes & Other Local Sources	$ 1,276,589	$ 895,106	$ 931,554	$ 36,448	4.07%
State and Federal Sources	$ 114,726	$ 419,190	$ 426,010	$ 6,820	1.63%
Total Sources	$ 5,790,932	$ 5,601,512	$ 5,427,426	$ (174,086)	-3.11%
Services Provided	$ 5,667,806	$ 5,599,324	$ 5,389,859	$ (209,465)	-3.74%
Difference	$ 123,126	$ 2,188	$ 37,567		
Beginning Fund Balance	$ 807,055	$ 930,181	$ 932,369		
Ending Fund Balance	$ 930,181	$ 932,369	$ 969,936		
Capital Projects and Construction:					
Property Taxes and Other Local Sources	$ 3,418,228	$ 5,060,335	$ 5,137,215	$ 76,880	1.52%
Sale of Bonds	$ 3,785,024	$ 5,149,359	$ 6,235,000	$ 1,085,641	21.08%
Total Sources	$ 7,203,251	$ 10,209,693	$ 11,372,215	$ 1,162,522	11.39%
Technology Projects	$ 3,234,541	$ 4,562,123	$ 4,596,842	$ 34,719	0.76%
Construction Projects	$ 3,210,172	$ 8,035,377	$ 5,250,000	$(2,785,377)	-34.66%
Total Uses	$ 6,444,713	$ 12,597,500	$ 9,846,842	$(2,750,658)	-21.83%
Difference	$ 758,538	$ (2,387,807)	$ 1,525,373		
Beginning Fund Balance	$ 222,984	$ 981,522	$ (1,406,285)		
Ending Fund Balance	$ 981,522	$ (1,406,285)	$ 119,088		
Debt Service Fund					
Property Taxes and Other Local Sources	$ 4,786,656	$ 5,569,904	$ 5,213,476	$ (356,428)	-6.40%
Principal Repayment and Interest Expense	$ 4,882,888	$ 5,878,913	$ 5,205,993	$ (672,920)	-11.45%
Difference	$ (96,232)	$ (309,009)	$ 7,483		
Beginning Fund Balance	$ 1,209,710	$ 1,113,478	$ 804,468		
Ending Fund Balance	$ 1,113,478	$ 804,468	$ 811,951		
Note: 03-04 excludes proceeds from refinancing of 1996 debt.					
Net Change in Fund Balances	$ 271,890	$ (3,552,870)	$ 1,613,482		

MINNETONKA ISD #276
REVENUE AND EXPENDITURE STATEMENT
FOR THREE YEARS ENDING JUNE 30, 2005

	Actual 03-04	Actual 04-05	Budget 05-06	Change Dollars	Change Percent
Enrollment:	7,683.00	7,714.00	7,616.00	(98)	-1.27%
Per Pupil Revenue and Expenditures					
General Fund					
Revenue	$ 8,557.32	$ 8,457.64	$ 8,604.11	$ 146.47	1.73%
Expenditures	$ 8,593.45	$ 8,537.51	$ 8,599.63	$ 62.12	0.73%
Difference	$ (36.14)	$ (79.87)	$ 4.48		
Food Service					
Revenue	$ 424.70	$ 429.66	$ 431.99	$ 2.34	0.54%
Expenditures	$ 447.27	$ 452.94	$ 430.82	$ (22.12)	-4.88%
Difference	$ (22.57)	$ (23.28)	$ 1.18		
Community Service Fund					
Revenue	$ 753.73	$ 726.15	$ 712.63	$ (13.51)	-1.86%
Expenditures	$ 737.71	$ 725.87	$ 707.70	$ (18.16)	-2.50%
Difference	$ 16.03	$ 0.28	$ 4.93		
Capital Projects and Construction					
Revenue	$ 937.56	$ 1,323.53	$ 1,493.20	$ 169.67	12.82%
Expenditures	$ 838.83	$ 1,633.07	$ 1,292.92	$ (340.15)	-20.83%
Difference	$ 98.73	$ (309.54)	$ 200.29		
Debt Service Fund					
Revenue	$ 623.02	$ 722.05	$ 684.54	$ (37.51)	-5.19%
Expenditures	$ 635.54	$ 762.11	$ 683.56	$ (78.55)	-10.31%
Difference	$ (12.53)	$ (40.06)	$ 0.98		
Summary					
Revenue	$ 11,296.33	$ 11,659.02	$ 11,926.48	$ 267.46	2.29%
Expenditures	$ 11,252.80	$ 12,111.50	$ 11,714.63	$ (396.87)	-3.28%
Difference	$ 43.52	$ (452.47)	$ 211.85		

Allocation of 04-05 Resources By Funds



MINNETONKA ISD #276
REVENUE AND EXPENDITURE STATEMENT
FOR THREE YEARS ENDING JUNE 30, 2005

	Actual	Actual	Budget	Change	
	03-04	04-05	05-06	Dollars	Percent

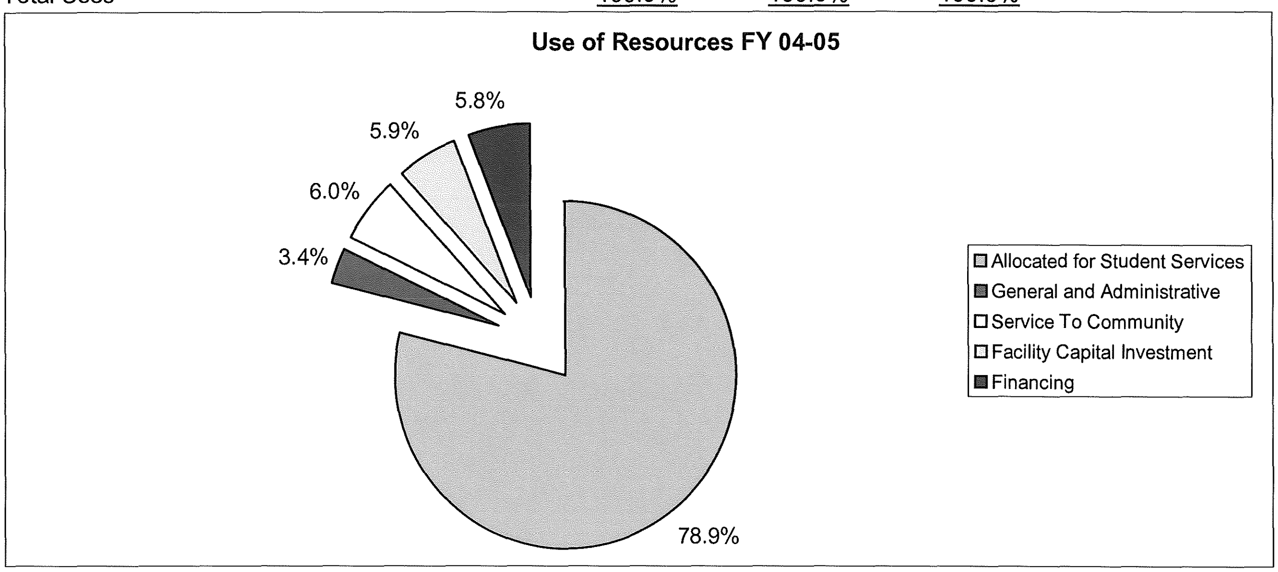
The below data is considered supplementary information:

Summary:	Actual	Actual	Budget	Change	
Sources:	02-03	03-04	04-05	Dollars	Percent
From Property Taxes	29,452,588	25,718,184	25,490,429	(227,755)	-0.89%
State Aid	43,989,099	48,945,881	48,910,911	(34,970)	-0.07%
Services Provided	7,265,859	7,180,301	6,947,387	(232,914)	-3.24%
Fees, Tuition, Interest Miscellaneous	1,052,015	1,564,465	1,755,150	190,685	12.19%
Federal Sources	1,245,099	1,379,519	1,493,223	113,704	8.24%
Borrowed Funds	3,785,024	5,149,359	6,235,000	1,085,641	21.08%
Total Resources	86,789,684	89,937,709	90,832,100	894,391	0.99%
Uses:					
Allocated for Student Services	69,485,956	71,048,122	70,352,334	(387,602)	-0.55%
General and Administrative	3,208,472	2,866,342	3,020,432	154,090	5.38%
Service To Community	5,667,806	5,599,324	5,389,859	(209,465)	-3.74%
Facility Capital Investment	3,210,172	8,035,377	5,250,000	(2,785,377)	-34.66%
Payment of Principal and Interest on Debt	4,882,888	5,878,913	5,205,993	(672,920)	-11.45%
Total Uses	86,455,294	93,428,079	89,218,618	(4,209,461)	-4.51%
Net Change in Fund Balances	334,390	(3,490,370)	1,613,482		

Per Pupil Expenditures:	Actual	Actual	Budget	Change	
	02-03	03-04	04-05	Dollars	Percent
Enrollment:	7,683.00	7,714.00	7,616.00	(98)	-1.27%
Sources - All Funds:					
From Property Taxes	$3,833	$3,334	$3,347	$13	0.39%
State Aid	$5,726	$6,345	$6,422	$77	1.21%
Services Provided	$946	$931	$912	($19)	-2.00%
Fees, Tuition, Interest Miscellaneous	$137	$203	$230	$28	13.63%
Federal Sources	$162	$179	$196	$17	9.64%
Borrowed Funds	$493	$668	$819	$151	22.64%
Total Resources	$11,296	$11,659	$11,926	$267	2.29%
	-	-	-		
Uses - All Funds					
Allocated for Student Services	$9,044	$9,210	$9,237	$27	0.29%
General and Administrative	$418	$372	$397	$25	6.73%
Service To Community	$738	$726	$708	($18)	-2.50%
Facility Capital Investment	$418	$1,042	$689	($352)	-33.82%
Payment of Principal and Interest on Debt	$636	$762	$684	($79)	-10.31%
Total Uses	$11,253	$12,111	$11,715	($397)	-3.28%
Net Change in Fund Balances	$44	($452)	$212		

MINNETONKA ISD #276
REVENUE AND EXPENDITURE STATEMENT
FOR THREE YEARS ENDING JUNE 30, 2005

	Actual 03-04	Actual 04-05	Budget 05-06	Change Dollars	Change Percent
Percent of Total:	**Actual**	**Actual**	**Budget**	**Change**	
Sources - All Funds:	**02-03**	**03-04**	**04-05**	**Dollars**	**Percent**
From Property Taxes	33.9%	28.6%	28.1%	-0.5%	-1.86%
State Aid	50.7%	54.4%	53.8%	-0.6%	-1.06%
Services Provided	8.4%	8.0%	7.6%	-0.3%	-4.20%
Fees, Tuition, Interest Miscellaneous	1.2%	1.7%	1.9%	0.2%	11.08%
Federal Sources	1.4%	1.5%	1.6%	0.1%	7.18%
Debt Financing	4.4%	5.7%	6.9%	1.1%	19.89%
Total Resources	100.0%	100.0%	100.0%		
Uses - All Funds:					
Allocated for Student Services	80.4%	76.0%	78.9%	2.8%	3.69%
General and Administrative	3.7%	3.1%	3.4%	0.3%	10.35%
Service To Community	6.6%	6.0%	6.0%	0.0%	0.80%
Capital Investment	3.7%	8.6%	5.9%	-2.7%	-31.58%
Debt Financing	5.6%	6.3%	5.8%	-0.5%	-7.27%
Total Uses	100.0%	100.0%	100.0%		



Appendix: Glossary of Terms

Fund Accounting

Because of the legal limitations establishing each fund as a separate accounting entity the attached report does not merge all funds into one report. To do so would present an inaccurate picture of the resource management options available to local districts.

The existence of the various district funds has been established by the State of Minnesota's Department of Education. It includes the following funds with the following purposes:

- **General Fund** - Accounts for all financial resources except those required to be accounted for in another fund. It includes transportation and capital expenditures, which formally had been accounted for in separate funds.
- **Food Service Fund** - Accounts for food service revenues and expenditures.
- **Community Service Fund** - Accounts for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, or similar services.
- **Capital Projects and Building Construction Fund** - Accounts for financial resources used for the acquisition or construction or equipping of district facilities. Establishment of this fund is authorized by a capital projects referendum or by a bond referendum.
- **Debt Service Fund** - Accounts for the accumulation of resources and the payment of general obligation bond principal, interest, and related costs. Establishment of this fund is authorized by bond issues.
- **Trust and Agency Fund** - Accounts for the resources administered by the district as the trustee or agent for others. Expendable trust funds include memorial and scholarship plans as well as other types of plans.

Terms used in Cost of Teaching and Learning:

Leadership: Building principal and curriculum administration.

Professional Teaching Personnel: Licensed professional staff including regular teachers, special education teachers, social workers, psychologists, speech therapists, and substitute teachers.

Classroom Support Staff: Paraprofessional and clerical staff.

Benefits: Includes FICA, state retirement, workers compensation, insurance, and early retirement expenditures.

Tuition Payments: Expenditures to other education agencies for students who could not be served by the local school district. This largely includes treatment for low incidence special education students.

Appendix (Continued)

Glossary of Terms – Cost of Teaching and Learning

Utilities and Custodial Services: Cost to operate the physical plant included utilities and direct custodial services.

Purchased and Contracted Services: Services purchased from outside the district such as printing expenses, telephone expenses, postage, employee travel, staff development expenses, instructional consultants, student field trips, equipment repair, etc.

Supplies: Classroom supplies, library books, media materials, periodicals, and computer software.

Textbooks: Textbooks and workbooks used in the classroom.

Equipment and Facility Maintenance: Repair of parking lots and drives, electrical and mechanical system maintenance, health and safety code deficiencies, painting, replacement classroom furniture, special assessments, and the purchase of equipment.

Other: Miscellaneous expenses not easily categorized elsewhere in the report.

General and Administrative Expenses:

Personnel Costs: District level administrative and clerical staff including wages, salaries and benefits.

Purchased and Contracted Services: Services purchased from outside the district such as printing expenses, telephone expenses, postage, employee travel, staff development expenses, consultants, equipment repair, etc.

Supplies: General supplies consumed in the operation of the District Office.

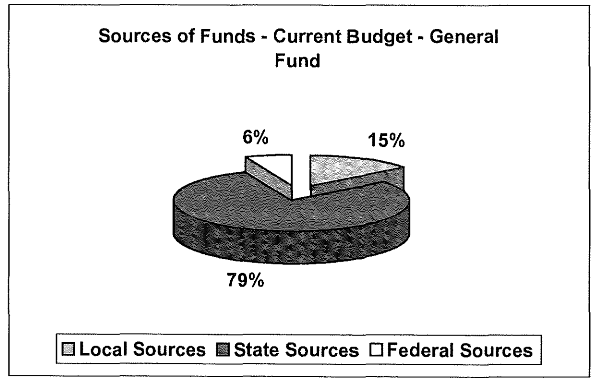
Equipment and Facility Maintenance: Repair of parking lots and drives, electrical and mechanical system maintenance, health and safety code deficiencies, painting, replacement classroom furniture, special assessments, and the purchase of equipment,

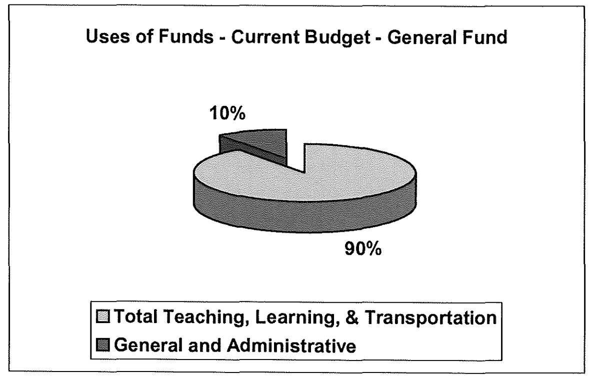
Utilities and Custodial Services: Cost to operate the physical plant included utilities and direct custodial services.

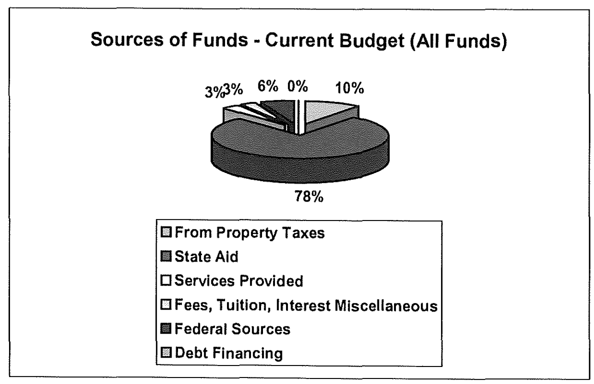
Austin Public Schools
Financial Summary
Three-Year Period Ending June 30, 2005

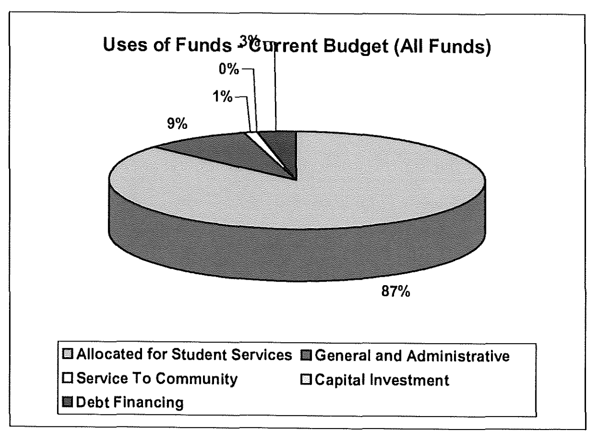
Sources and Uses of Funds	Actual 02-03	Actual 03-04	Budget 04-05
General Fund			
Sources:			
Local Sources	2,889,537	3,781,516	5,389,743
State Sources	28,717,662	28,264,039	29,218,369
Federal Sources	1,356,490	1,629,718	2,384,588
Total Sources	**32,963,689**	**33,675,273**	**36,992,700**
Uses:			
Teaching and Learning	27,695,751	28,997,590	30,819,838
Transportation	1,221,994	1,197,239	1,275,591
Total Teaching, Learning, & Transportation	28,917,745	30,194,829	32,095,429
General and Administrative	2,381,049	2,782,340	3,666,758
Total Uses	**31,298,794**	**32,977,169**	**35,762,187**
Net Surplus / (Deficit)	**1,664,895**	**698,104**	**1,230,513**
Other Funds			
Food and Nutrition Services			
Total Sources	1,604,879	1,544,316	1,576,266
Total Uses	1,553,122	1,568,654	1,696,075
Net Surplus / (Deficit)	**51,757**	**(24,338)**	**(119,809)**
Community Education and Services			
Total Sources	1,327,003	1,307,118	1,303,871
Total Uses	1,218,933	1,330,491	1,419,117
Net Surplus / (Deficit)	**108,070**	**(23,373)**	**(115,246)**
Capital Projects			
Total Sources	-	-	-
Total Uses	-	-	-
Net Surplus / (Deficit)	**-**	**-**	**-**
Debt Financing			
Total Sources	10,539,447	1,323,233	1,366,441
Total Uses	10,283,343	1,326,354	1,333,743
Net Surplus / (Deficit)	**256,103**	**(3,121)**	**32,698**
Combined Funds			
Total Sources	46,435,018	37,849,939	41,239,278
Total Uses	44,354,193	37,202,668	40,211,122
Net Surplus / (Deficit)	**2,080,826**	**647,271**	**1,028,156**

Key Statistics and Ratios		Actual 02-03	Actual 03-04	Budget 04-05
Enrollment Statistics				
Total Enrollment (Fall Enrollment Counts)		4,081	4,021	4,070
Enrollment Growth Rate				-0.1%
Per Pupil Sources of Funds - General Fund		$8,077	$8,375	$9,089
Year-to-Year Growth Rate				6.1%
Per Pupil Expenditures - Teaching and Learning		$7,086	$7,212	$7,572
Year-to-Year Growth Rate				3.4%
Per Pupil Expenditures - General and Administrative		$583	$237	$275
Year-to-Year Growth Rate				-31.3%
Class Size:	Elementary K-3	*21.3*	*21.2*	*21.8*
	Elementary 4-5	*27.3*	*24.9*	*25.1*
	Middle Level 6-8 (est)	*28.4*	*29.1*	*27.2*
	High School 9-12 (est)	*28.0*	*30.0*	*25.0*
Financial Statistics				
Total Sources of Funds - General Fund		$32,963,689	$33,675,273	$36,992,700
Year-to-Year Growth Rate				5.9%
Total Uses of Funds - General Fund		$31,298,794	$32,977,169	$35,762,187
Year-to-Year Growth Rate				6.9%







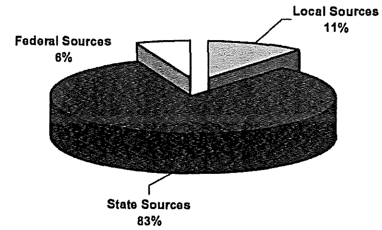


Willmar Public Schools ISD #347
Financial Summary
Three-Year Period Ending June 30, 2006

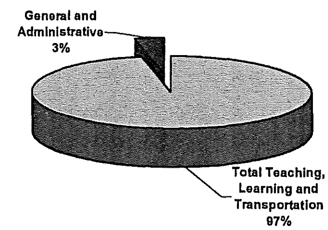
Sources and Uses of Funds	Actual 03-04	Actual 04-05	Budget 05-06
General Fund			
Sources:			
Local Sources	4,121,357	3,757,658	4,209,999
State Sources	31,101,721	31,476,588	32,212,673
Federal Sources	2,045,563	2,813,609	2,371,037
Total Sources	**37,268,641**	**38,047,854**	**38,793,709**
Uses:			
Teaching and Learning	32,415,483	34,981,528	36,861,041
Transportation	1,857,242	2,112,229	2,197,940
Total Teaching, Learning and Transportation	34,272,726	37,093,757	39,058,981
General and Administrative (Includes Transfers)	1,264,753	1,359,489	1,374,182
Total Uses	**35,537,478**	**38,453,246**	**40,433,163**
Net Surplus / (Deficit)	**1,731,163**	**(405,392)**	**(1,639,454)**
Ending Fund Balance	**6,853,597**	**6,448,205**	**4,808,751**
Other Funds			
Food and Nutrition Services			
Total Sources	1,728,963	1,852,927	1,890,687
Total Uses	1,836,175	2,066,306	1,865,511
Net Surplus / (Deficit)	**(107,212)**	**(213,378)**	**25,176**
Ending Fund Balance	**291,749**	**78,371**	**103,547**
Community Education and Services			
Total Sources	2,115,429	2,031,037	1,996,764
Total Uses	1,988,906	2,195,490	2,014,380
Net Surplus / (Deficit)	**126,523**	**(164,454)**	**(17,616)**
Ending Fund Balance	**358,052**	**193,599**	**175,982**
Debt Financing			
Total Sources	3,567,515	2,703,222	19,992,738
Total Uses	3,634,082	2,783,915	19,742,759
Net Surplus / (Deficit)	**(66,567)**	**(80,693)**	**249,979**
Ending Fund Balance	**840,804**	**760,111**	**1,010,090**
Combined Funds			
Total Sources	44,680,549	44,635,041	62,673,898
Total Uses (Including Transfers)	42,996,641	45,498,957	64,055,814
Net Surplus / (Deficit)	**1,683,907**	**(863,916)**	**(1,381,916)**
Ending Fund Balance	**8,344,202**	**7,480,286**	**6,098,370**

Key Statistics and Ratios	Actual 03-04	Actual 04-05	Budget 05-06
Enrollment Statistics			
Total Enrollment	4,195	4,093	4,050
Enrollment Growth Rate			-0.5%
Per Pupil Sources of Funds - General Fund	$8,884	$9,296	$9,579
Year-to-Year Growth Rate			1.5%
Per Pupil Expenditures - Teaching and Learning	$8,170	$9,063	$9,644
Year-to-Year Growth Rate			3.2%
Per Pupil Expenditures - General and Administrative	$301	$332	$339
Year-to-Year Growth Rate			1.1%
Class Size: Elementary K-3			
Elementary 4-5			
Middle Level 6-8 (est)			
High School 9-12 (est)			
Financial Statistics			
Total Sources of Funds - General Fund	$37,268,641	$38,047,854	$38,793,709
Year-to-Year Growth Rate			2.0%
Total Uses of Funds - General Fund	$35,537,478	$38,453,246	$40,433,163
Year-to-Year Growth Rate			6.7%

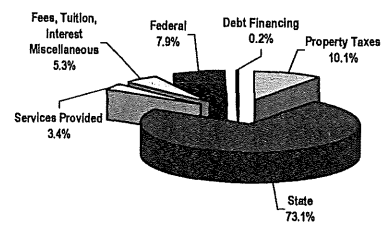
Sources of Funds - FY 05-06 Budget - General Fund



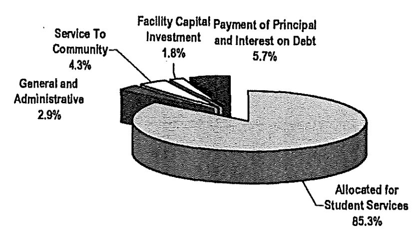
Uses of Funds - FY 05-06 Budget - General Fund



Sources of Funds - FY 05-06 Budget (All Funds)



Uses of Funds - Current Budget (All Funds)



Determining the Cost of Education in Minnesota

Continuing the Work of the Governor's Education Funding Reform Task Force

EXECUTIVE SUMMARY

December 2, 2005

Augenblick, Palaich and Associates, Inc.

Prepared by John Myers, Vice President of Augenblick, Palaich and Associates for the
Association of Metropolitan School Districts,
Minnesota Rural Education Association, and
Schools for Equity in Education

BACKGROUND

The Education Finance Reform Task Force believes that Minnesota has much about which to be proud when it comes to our public schools.

Thus begins "Investing In Our Future: Seeking a Fair, Understandable and Accountable Twenty-First Century Education Finance System for Minnesota," an historic report commissioned in 2003 by Minnesota Governor Tim Pawlenty who appointed a 19-member Task Force to examine issues of education reform critical to the success of Minnesota students. "Investing In Our Future," widely examined and often referenced by both lawmakers and educators, proved to be an excellent vehicle by which this important policy discussion has moved forward.

Yet, by the Task Force's own admission, the group "was not charged with developing or determining what the final funding levels should be in Minnesota." Instead, the creation of a formula which must be "logically linked to ... student learning" and "sufficient to cover full dollar costs of ensuring Minnesota public school students have an opportunity to achieve state specified academic standards" was left incomplete. The Task Force, with expert support from Management Analysis & Planning, Inc. (MAP), suggested that a "rationally determined process could be developed," but Task Force members and observers alike have noted that the work itself has yet to be done.

While a new funding system was not created, the Governor's Task Force did recommend several next steps in the implementation of a new education funding system. The first three of those recommendations are:

- *Conducting a follow-up study and analysis to determine the accuracy of the school-level instructional programs identified by the Professional Judgment Panel study.*
- *Determining the dollar value of the Instructional Services Allocation (ISA) through additional study and analysis*
- *Conducting research to determine the appropriate "weighting" for the various relevant characteristics of individual students and the appropriate funding adjustments for uncontrollable conditions impacting a school district.*

Some 18 months after the release of "Investing in Our Future," three education organizations representing approximately 80% of Minnesota's public school students have acted upon the recommendations of the Task Force report. In September of 2005, the Association of Metropolitan School Districts (AMSD), the Minnesota Rural Education Association (MREA), and Schools for Equity in Education (SEE) contracted with national school finance expert John Myers of Augenblick, Palaich and Associates (APA) to examine the Task Force results and, using widely accepted methodologies, determine the costs necessary to ensure that each public school student is educated to meet the state's academic standards.

FINDINGS

In "Determining the Cost of Education in Minnesota," the first of a two phase study to determine the true cost of education in Minnesota, Myers explores the Governor's Task Force report. Myers, drawing upon a rich national database of school finance information, extends the work of MAP's costing teams (Professional Judgment Panels). Using data from the Professional Judgment Panels included in the appendix of the Task Force Report, Myers determines both base level student costs and recognized adjustment factors which comprise the total expenditure level required to ensure all students in Minnesota public schools have the opportunity to achieve state standards. These adjustment factors include accounting for the recognized challenges associated with special education, low income, and limited English proficiency students.

In reviewing the weightings implied by the MAP work to students in these categories, Myers found that adjustments were not correctly determined. As a result, Myers provides the appropriate adjustments to the Professional Judgment Panels' findings.

In addition, because the Professional Judgment Panels' data are based on 2001-02 figures, Myers extrapolates this resultant analysis to 2003-2004, the most recent year for which comprehensive Minnesota Department of Education (MDE) finance data are available.

When the data from the Professional Judgment Panels are "unpacked" and defensible special needs adjustments are factored in, Myers concludes that in 2003-04, the real cost of educational services necessary for all Minnesota students to achieve state standards should have been $7.9 billion. However, actual expenditures for that fiscal year totaled just over $7 billion. Thus it is clear from these findings that in 2003-04, Minnesota underfunded its public school students by nearly one billion dollars.

Total Operating Expenditures	2003-04 Cost Using MAP (Task Force) Base + APA Adjustments	2003-04 Actual Expenditures Comparable	Difference
Without Transportation and Capital	$7.25567 billion	$6.30278 billion	$952.89 million
With Transportation and Capital	$7.99843 billion	$7.04554 billion	$952.89 million

Phase I of Myers study, "Determining the Cost of Education in Minnesota," reveals a significant gap between the investment Minnesota has been making in education and what is required in order for students to meet the state's own academic standards. It has also shown that the key recommendation of the Governor's original Task Force remains imperative: "Minnesota must actively pursue a new system for funding our public schools."

NEXT STEPS

Phase II of Myers' work will examine the cost of delivering state standards using additional research tools beyond the scope of the Governor's effort and will build the base upon which a new system of funding Minnesota's schools can and should be created. It is evident that the need for an adequacy (i.e. costing-out) study still remains, and Myers' Phase II effort will fill this void.

This next phase will be designed to identify funding levels for a base student cost with adjustments for students with special needs. Once the analysis is complete, any emerging school funding system will require the separation of the revenue source from the expected expenditures for each component of the school finance formula. Simulation of a new formula will require that each school district's revenues and expenditures be identified. Finally, the new formula will need to be evaluated based on district wealth and student needs.

The needs of children who live in poverty and who may also experience language barriers must be accurately measured and recognized. The APA report shows that while MAP recognizes additional costs are associated with educating students in these demographical categories, it has understated the resources necessary to meet state and federally mandated accountability provisions for student achievement.

As Minnesota policymakers consider reforming the state's school finance formula, they must recognize the additional costs incurred with standards based reform. In the implementation of these reforms, several additional challenges will arise. In most states, the issue of economies of scale is raised concerning rural/small schools. Size adjustments, support for districts in sparsely populated areas, and declining enrollment provisions are generally incorporated. The Governor's Task Force also mentioned the need for a program assurance adjustment for smaller schools.

Another anticipated formula implementation issue relates to the cost differential among school districts of economically diverse areas. Several states use a cost-of-living adjustment to account for these differences. The Task Force suggested a labor market differential be considered in a new formula. These issues are critical in the creation of a new funding formula and must not be overlooked. Phase II of the Myers' study will address these issues as well.

This thorough analysis is work which, as the Governor's Task Force concluded, "We cannot delay." It is the intention of the education community to build upon what was started in "Investing In Our Future." APA believes that the true level of need facing school districts and students throughout Minnesota must be clearly defined in order that the need can best be met.

Determining the Cost of Education in Minnesota

Continuing the Work of the Governor's Education Funding Reform Task Force

FINAL REPORT

December 2, 2005

Augenblick, Palaich and Associates, Inc.

Prepared by John Myers, Vice President of Augenblick, Palaich and Associates for the
Association of Metropolitan School Districts,
Minnesota Rural Education Association, and
Schools for Equity in Education

INTRODUCTION

This fall, Augenblick, Palaich and Associates (APA) was employed by the Association of Metropolitan School District (AMSD), the Minnesota Rural Education Association (MREA), and Schools for Equity in Education (SEE) to estimate the costs associated with educating Minnesota students to state and national standards based on work done for the Governor's Education Funding Reform Task Force. The Task Force made several key recommendations; however, it stopped short of estimating the cost of education based on the work done by their consultants, Management, Analysis and Planning, Inc. (MAP).

The work completed by the nineteen member task force, appointed in June of 2003 by Governor Tim Pawlenty, resulted in the Education Finance Reform Task Force report titled, "Investing In Our Future: Seeking a Fair, Understandable, and Accountable 21st Century Education Finance System for Minnesota."

The "Determining the Cost of Education in Minnesota" report summarizes the key recommendations of the Governor's Task Force report. It also examines the consultants' work for the task force, identifies key strengths and weaknesses of the report, determines the cost of education in Minnesota using the results of the professional judgment approach used by the Task Force, and recommends next steps.

Augenblick, Palaich and Associates, Inc. (APA) is a Denver-based consulting firm that has worked with state policymakers on school funding issues for more than 20 years. APA's work uses MAP's professional judgment study to determine two key elements: 1) a base per-student cost; and 2) additional costs or "weights" for students with special needs. The "professional judgment" approach has been used effectively in other states by both MAP and APA, but APA has completed a larger number of adequacy studies and has had more success in helping policy makers translate study results into new school finance formulas.

For the purposes of this paper, "adequate revenues" or "adequacy" means providing sufficient funding so schools are able to provide the programs and services necessary for each student to achieve state and federal student performance expectations. These performance expectations are reflected in Minnesota's state education accountability system, the state's federally-approved plan to comply with the No Child Left Behind Act (NCLB), and other requirements associated with the Individuals with Disabilities Education Act (IDEA).

There are two primary, inter-connected reasons to determine the cost of adequacy:

(1) To understand the cost implications associated with meeting state and federal requirements/expectations; and
(2) To estimate needed components of a state school finance formula.

When discussing state and federal performance expectations, the fact is that most states (including Minnesota) and the federal government have decided that standards-based reform is the best way to improve the elementary and secondary education system. Under standards-based reform, the role of the state is the following:

- set standards for students, teachers, schools, and/or school districts (in terms of both "inputs", such as teacher qualifications, course offerings, or service requirements, and "outcomes", such as student performance on achievement tests, attendance, or graduation rates);
- measure how well students, teachers, schools, and/or school districts are doing (which typically means developing assessment and auditing procedures specifically tied to the standards); and
- hold students, teachers, schools, and/or school districts accountable for their performance (often including consequences either for meeting or not meeting standards).

From the beginning of the standards-based reform movement in this country (starting with the reform of the Kentucky education system in 1990), most states and the federal government have not attempted to estimate the costs that every school or district would incur to help each of their students meet state/federal performance standards. Determining these costs has become an essential missing piece that state policymakers need in order to understand what resources schools require to enable each student to succeed. In addition, once these costs are determined, state policymakers also need to properly address them in the state's school finance system.

Minnesota, like many states, uses a "foundation-type" formula as the basis for allocating a majority of the state's aid to school districts. Under a foundation approach, the state typically determines a "target" amount of revenue per student (combining a fixed, base amount – the foundation level – with added amounts for students with special needs). In some states, the foundation level is calculated based on the amount of revenue needed for a student with no special needs attending school in an average size school district. In other states, student weights, such as those used in Minnesota, are used to help reflect the added cost of serving students with special, high cost needs. Weights can also be used to reflect the added cost of providing services in districts that face uncontrollable cost pressures – often related to a district's size or regional cost differences.

In many states, including Minnesota, the determination of the foundation level is instead based primarily on total available revenue and does not take into consideration the state and federal expectations for student, school and district performance. This method for determining the foundation does not reflect the level of resources needed to fully implement standards-based reform.

In the past few years, states and their consultants have developed approaches that can calculate a cost that reflects a particular level of desired student performance. These efforts are designed to create a base cost that has meaning beyond simply reflecting available state revenue. Four approaches have emerged as ways to determine such a base cost:

(1) The successful school district approach;
(2) The professional judgment approach;
(3) The evidence-based approach; and
(4) The statistical approach.

Each of these methodologies has strengths and weaknesses. They differ in their underlying philosophies, the amounts of information they require, the types of information they produce, the number of states in which they have been used, and the magnitude of the parameters that they estimate.

APA has come to believe that the successful school district approach provides a reasonable estimate of the base cost in relation to what school districts are accomplishing at present. Under this approach the "base cost" is determined by examining the basic spending of districts that meet state standards. The base cost applies to students with no special needs attending schools in districts that do not face unusual cost pressures.

We have found that the professional judgment approach provides a reasonable estimate of the base cost for a level of performance expected in the future. If done appropriately, it also provides information about the additional costs of serving students with special needs or of serving students in districts that vary in size. The approach relies on the views of experienced educators and education service providers to specify the resources needed for schools and districts to achieve the specified performance objectives. Once the services have been specified (with a focus on numbers of personnel, regular school programs, extended-day and extended-year programs, professional development, technology, etc.) costs are attached and a per pupil cost is determined.

APA has found that the statistical approach – which is based on understanding those factors that statistically explain differences in spending across school districts while controlling for student performance – cannot be used effectively in most states due to a lack of available information. In particular, there is often a lack of needed fiscal data at the school level. Finally, we have found the evidence-based approach – which seeks to use information gleaned from research to define the resource needs of a hypothetical school district – is limited in its generalizability to most states and districts.

Based on our experience, APA recommends that Minnesota undertake an adequacy analysis based primarily upon both the successful school district and professional judgment approaches. The use of both is advantageous to policymakers because it allows for a more thorough examination of the underlying cost structure and can help policymakers consider how to phase-in the appropriate level of investment. Until that analysis is completed, what exists is the Task Force's professional judgment study that did not result in a base student cost and adjustments. In the interim, this paper uses the data prepared for the Task Force in order to determine those base student cost and adjustment numbers.

KEY RECOMMENDATIONS OF THE GOVERNOR'S TASK FORCE REPORT

As a means to understand the context of the adequacy level developed in this paper it is necessary to review the key recommendation from the Task Force. Task Force recommendations provide a good first step in the crafting of a new school funding system for Minnesota. The recommendations provide expectations for what the State of Minnesota needs to do next. The recommendations primarily focus on basic principles and potential formula structures. A brief summary of the key principles that should govern a new school finance formula include the following.

- The funding formula should be rationally determined, learning-linked, student-oriented and cost-based.
- It should link education funding to school and student performance.
- It should allow local discretion in spending.
- It should equalize local option referendums.
- It should promote innovation to maximize resources.

- It should encompass a five-tier system that focuses on instructional services, local district revenue, innovative programs, categorical programs, and facilities and debt service.

STRENGTHS AND WEAKNESSES OF THE MAP WORK

There are several strengths in the task force report that make it the potential framework for a new formula. These strengths include the following:

- the recommendations in the report were agreed upon by seventeen of the nineteen task force members;
- the recognition that a school district should be able to decide how it spends its funds;
- the support for experimenting with new governance structures for some schools;
- the examination of the demographics that influence student and district needs. The report contains a considerable amount of data on the achievement gap, student population diversity, student mobility, increased poverty, rural decline, aging population, and stagnating taxes; and
- the use of MAP consulting group and the professional judgment study that was completed.

The dissenting letter included in the Task Force report called for more emphasis on innovation, reform, pilot projects and accountability based on student results. The debate between those proposing to radically reform education and those who want to improve the existing system is intensifying. Historically, the Minnesota school finance formula was developed to assure that local wealth was not the determining factor in how much funding was available for education. That formula is consistent with funding the existing system. Dramatic change in the way we educate students would require a new governance system, a new organizational model, and a new funding system.

Both in MAP's work and in the recommendations of the Task Force there is a recognition of the full range of activities school districts must provide to successfully focus on student, school, and district needs. MAP's work to study the resources needed for students to meet state standards used the respected professional judgment approach as a costing-out strategy. Using a professional judgment approach is a significant undertaking that requires considerable expertise and creates a large amount of information for the costing out process.

Unfortunately, the MAP work did not provide the clarity needed by the task force to establish a new school finance formula. The first two paragraphs of Appendix B, page 39 of the report, make it clear that the consultants did not fully support or utilize their own study and that they did not show an appreciation for the appropriate role of the state in establishing a school finance formula when they said:

> "...a reader should understand that there is not a single "bottom line" here...decision-makers are free to select among, or, if they choose, exceed, rationally determined spending levels, and be confident that what they have done is defensible in terms of providing education resources that are "adequate"."

Specifically, MAP should have provided a set of base student costs and special needs adjustments that could have been used by the task force to establish a school finance formula. This would have led to the inclusion of a "a single bottom line." Additionally, they should not have suggested that policymakers could arbitrarily select among five alternative sets of funding levels.

In Appendix B on page 48 of the Task Force report the consultants said,

> "The professional judgment panels were not charged with developing special education instructional programs...for children outside of the general classroom. Rather, the panels were tasked with developing the instructional programs for all children in the general education classroom, including the special education students"
>
> "Existing adequate special education expenditures (considered adequate because of the mandate that special education be funded at an adequate funding level) were added to those resources considered adequate to deliver the general education programs developed by the panels."

The MAP consultants argued that their approach, described above, would eliminate the issue of cross subsidization. In other words, the panel decisions and the addition of existing special education funding would eliminate the need for general fund dollars to be used for special education programs. There is no evidence from other states that the proposed approach would work. It is also clear that the process MAP used did not provide resources necessary to meet the accountability provisions in Minnesota state standards.

Ultimately, the task force was shown five different sets of funding levels based on the work of three study teams. The three study teams' results were represented by a change in expenditure that would create a state-wide impact of 1.42%, -2.82% or 14.75%. These were provided along with two additional results, 6.85% and 6.89%, that were created by modifying the highest expenditure study team's result. The modifications lowered the expenditure that was found by that team.

The explanation given for the modification is that the highest expenditure study team found a need for a higher level of non-personnel resources. It seems equally logical to ask what the results would be if the non-personnel resources from the highest expenditure team were applied to the other two teams. Regardless of whether their conclusion should have been an increase of about 6.90% or somewhere between 6.90% and 14.75%, no adequacy level was recommended by the consultants.

USING THE MAP INFORMATION

Using the information from the MAP professional judgment process to create a base cost and adjustment for use in a school finance system requires the use of five per pupil amounts. Those amounts vary depending on the percentage of special needs students represented by students receiving free and reduced price lunch (FRL) and English language learners (ELL) students. The amounts are provided in the table below.

Potential Funding for Minnesota Schools
(includes special education)

% FRL	%LEP	RED TEAM	PURPLE TEAM	YELLOW TEAM
6.5%	0.3%	$7,142.70	$6,899.81	$7,775.15

14.7%	0.3%	$7,142.70	$6,915.38	$7,832.16
27.3%	0.3%	$7,286.00	$7,094.82	$8,247.42
43.2%	4.2%	$7,595.33	$7,988.83	$8,552.84
69.7%	15.7%	$8,192.77	$8,683.13	$9,278.78

Potential Funding for Minnesota Schools
(excludes special education at $1,238 per pupil)

% FRL	%LEP	RED TEAM	PURPLE TEAM	YELLOW TEAM
6.5%	0.3%	$5,904.70	$5,661.81	$6,537.15
14.7%	0.3%	$5,904.70	$5,677.38	$6,594.16
27.3%	0.3%	$6,048.00	$5,856.82	$7,009.42
43.2%	4.2%	$6,357.33	$6,750.83	$7,314.84
69.7%	15.7%	$6,954.77	$7,445.13	$8,040.78

Modified[1] Potential Funding for Minnesota Schools
(excludes special education at $1,238 per pupil)

% FRL	%LEP	YELLOW TEAM	YELLOW TEAM-RED	YELLOW TEAM-PURPLE
6.5%	0.3%	$6,537.15	$5,998.74	$5,989.49
14.7%	0.3%	$6,594.16	$6,031.60	$6,022.35
27.3%	0.3%	$7,009.42	$6,355.86	$6,341.61
43.2%	4.2%	$7,314.84	$6,696.19	$6,724.00
69.7%	15.7%	$8,040.78	$7,406.69	$7,515.45

APA used all five results by accepting MAP's adjustments for the yellow team based on the non-personnel costs associated with the work of the red and purple teams. MAP made no attempt to adjust the red and purple teams to account for the non-personnel costs from the yellow team. (Even though there is research that suggests the professional development funding levels set by the yellow team may be more appropriate than those of the red and purple teams.) In order to proceed, APA chose to use the average of the yellow team and the two modified yellow team results. The averages as shown below:

Potential Funding for MN Schools Based on Team Averages of Modified Team Results

% FRL	%LEP	AVERAGE
6.5%	0.3%	$6,175.13
14.7%	0.3%	$6,216.04
27.3%	0.3%	$6,568.96

[1] Based on MAP changes to account for the Yellow Team being systematically higher that the others.

43.2%	4.2%	$6,911.68
69.7%	15.7%	$7,654.31

These amounts include a base, plus added amounts for special education, free and reduced priced lunch, and limited English proficient students, but the MAP report does not delineate these.

The first step in separating the base from adjustments is to set a weight for special education. As explained above, MAP did not use the professional judgment panels to identify resources needed for special education. For special education, MAP assumed a state average of 12.50 percent of all students would be in special education. They determined that each special education student would receive an additional amount of $1,238. This results in a weight for each special education student of 1.78 or 178 percent of the base cost per students.

When MAP averages are unpacked to come up with a base and the added amounts for the three categories of special needs, we determined their base cost to be $5,558 per pupil. From that we developed weights for free and reduced priced lunch, and limited English proficient students that would work at the various concentrations that MAP used in the professional judgment process (see the tables below).

Weights for Free and Reduced Lunch (FRL)

CONCENTRATION	WEIGHT
6.50%	1.23
14.70%	0.59
27.30%	0.55
43.20%	0.50
69.70%	0.41

Weights for English Language Learners (ELL)

CONCENTRATION	WEIGHT
0.30%	1.16
0.30%	1.16
0.30%	1.16
4.20%	1.16
15.70%	0.51

In order to find the weights at other points, graphs representing the concentrations and weights were developed. From this, equations were derived for the line segments of the various points. These equations were applied to actual school district data for the state of Minnesota. This resulted in a per pupil amount for each district that allowed us to estimate a total cost. The total cost for this base plus adjustments in 2001-02 dollars is approximately $6.52 billion.

USING ALTERNATIVE WEIGHTS

As mentioned above, there are questions about the MAP work as it relates to setting the number that we determined to be the base cost number plus adjustments. It would take a new adequacy study to better determine those numbers. However, we could look at special needs adjustments that are not based on concentration of students with special needs. Typically, adequacy studies have found variation in weights base on school district size, but when weights vary because of concentration, they usually increase as concentration increases. We did not find that pattern in the MAP work and therefore we use a more defensible approach.

In selecting weights, APA considered the work of the Center for Special Education Finance (CSEF), adequacy studies done in other states and Minnesota's traditions in providing strong finance formula support for student weights. Appropriate weights could be the same across all school districts regardless of size or concentration, although a new adequacy study will likely find variation in school district size.

CSEF has found the national average expenditure for special education is 1.90 times the average student cost. The growth in accountability associated with state standards has pushed adequacy studies to recognize the added costs of serving economically disadvantaged and English language learning students. By reviewing recent state studies APA chose student weights of 0.75 or an added 75 percent to serve at-risk students and 0.90 or an added 90 percent to assure English language learners can meet state standards.

If special education students received a 1.90 weight, free and reduced priced lunch students a 0.75 weight and English language learners a weight of 0.90, the total base plus adjustments total would be approximately $6.94279 billion.

COMPARING APA RESULTS TO ACTUAL 2003-04 EXPENDITURES

Comparing these target dollar amounts to current spending required two steps. First, APA gathered actual school district expenditure data from the Minnesota Department of Education website. The most recent data available was 2003-04. The total operating expenditures for Minnesota schools was $7.04554 billion. Transportation ($378.659 million) and capital expenditures ($364.100 million) were subtracted from the total operating expenditures to create a comparable approximate spending level ($6.30278 billion).

Next, the 2001-02 target spending amount of $6.94279 billion was adjusted for cost of living using a U.S. Department of Labor CPI. An adjustment of 4.5066 percent was applied. The result is in the table below:

Total Operating Expenditures	2003-04 Cost Using MAP (Task Force) Base + APA Adjustments	2003-04 Actual Expenditures Comparable	Difference
Without Transportation and Capital	**$7.25567 billion**	**$6.30278 billion**	**$952.89 million**
With Transportation and Capital	**$7.99843 billion**	**$7.04554 billion**	**$952.89 million**

CONCLUSION

A new school finance formula based on the work done for the Governor's Task Force as shown in this report would require increased funding for Minnesota school districts of $952.89 million. Without further study, the level of funding needed to implement an adequate school finance system in 2003-04 would be approximately $7.998 billion. This amount includes inflation adjusted total expenditures (the base costs determined by the Task Force's Professional Judgment Panel methodologies plus the APA adjustments for special needs students) plus the 2003-04 transportation and capital costs included in the state's currently funded total operating expenditures. Implementation of a new education finance framework using the Task Force's recommendations would likely require additional increases.

NEXT STEPS

The Governor's Task Force report recommends several next steps in the implementation of a new school funding system. The first three of those recommendations are:

(1) Conducting follow-up study and analysis to determine the accuracy of the school-level instructional programs identified by the Professional Judgment Panel study;
(2) Determining the dollar value of the Instructional Services Allocation through additional study and research; and
(3) Conducting research to determine the appropriate weighting for the various relevant characteristics of individual students and the appropriate funding adjustments for uncontrollable conditions impacting a school district.

This paper assists Minnesota in beginning to address those three recommendations.

Phase II of Myers' work will examine the cost of delivering state standards using additional research tools beyond the scope of the Governor's effort and will build the base upon which a new system of funding Minnesota's schools can and should be created. It is evident that the need for an adequacy (i.e. costing-out) study still remains, and Myers' Phase II effort will fill this void.

This next phase will be designed to identify funding levels for a base student cost with adjustments for special needs students. Once the analysis is complete, any emerging school funding system will require the separation of the revenue source from the expected expenditures for each component of the school finance formula. Simulation of a new formula will require that each school district's revenues and expenditures be identified. Finally, the new formula will need to be evaluated based on district wealth and student needs.

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As Minnesota policymakers consider reforming the state's school finance formula and the additional costs incurred with standards based reform, several implementation challenges will arise. In most states, the issue of economies of scale is raised concerning rural/small schools. Size adjustments, support for districts in sparsely populated areas, and declining enrollment provisions are generally incorporated. The Governor's Task Force also mentioned the need for a program assurance adjustment for smaller schools.

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This thorough analysis is work which, as the Governor's Task Force concluded, "We cannot delay." It is the intention of the education community to build upon what was started in "Investing In Our Future." We intend to clearly define the true level of need facing school districts and students throughout Minnesota in order that the need can best be met.

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

School District Integration Revenue

November 2005

The Integration Revenue program needs more focus and oversight.

Major Findings:

- The purpose of the Integration Revenue program is not clear.
- School districts vary widely in how they use integration revenue. While many of their expenditures are reasonable, some are questionable.
- Neither the state nor school districts have adequately assessed the results of the Integration Revenue program.
- Over the last five years, racial concentration has increased in some of the school districts that participate in the Integration Revenue program.
- The Minnesota Department of Education has not provided consistent or required oversight of the program, although it has made some improvements in the past year.
- The Integration Revenue funding formula has some unintended and potentially negative consequences.

Key Recommendations:

- The Legislature should clarify the purpose of the Integration Revenue program.
- The Legislature should authorize the Minnesota Department of Education to: (1) establish criteria against which school districts must evaluate their integration plans, and (2) withhold integration revenue from those districts that fail to meet these evaluation requirements.
- The Minnesota Department of Education should use its statutory authority to establish criteria for allowable Integration Revenue expenditures and fulfill its responsibilities for overseeing the Integration Revenue program.
- The Legislature should require districts that want to voluntarily participate in the Integration Revenue program to obtain approval from the Minnesota Department of Education.
- The Legislature should give the Minnesota Department of Education authority to approve the integration budgets of the Minneapolis, St. Paul, and Duluth school districts.
- The Legislature should consider revising the Integration Revenue funding formula.

Room 140, 658 Cedar Street, St. Paul, Minnesota 55155-1603 • Tel: 651-296-4708 • Fax: 651-296-4712 • E-mail: auditor@state.mn.us

Report Summary

In 2005, 80 school districts received about $79 million in integration revenue.

The Integration Revenue program, a component of the K-12 education funding formula, provides money to certain school districts for integration-related activities. In 2005, 80 school districts received almost $79 million in integration revenue.

School districts are eligible to receive integration revenue if they have a "racially identifiable school"—a school with a significantly greater minority concentration than the school district as a whole for the grade levels served by that school. Districts are also eligible for integration revenue if they are a "racially isolated school district"—a district that has a significantly higher concentration of minority, or "protected," students than surrounding districts. Districts that meet this requirement must, in cooperation with adjoining districts, establish a multidistrict collaboration council to identify ways to offer cross-district opportunities to improve integration. These multidistrict councils must develop an "integration plan" that identifies the councils' integration issues, the goals of the integration effort, and how the districts intend to achieve their goals.

We evaluated how school districts use their integration revenue and how the Minnesota Department of Education (MDE) oversees the program. We also analyzed school districts' student enrollment and financial data to determine how these have changed over the past five years.

The Purpose of the Integration Revenue Program is not Clear

Minnesota laws outline the goals of the Integration Revenue program and broadly define how school districts can use these funds. However, the laws that govern this program are ambiguous, giving school district staff significant flexibility when using their integration revenue.

In statute, the program's main emphasis is on "interracial contacts," a term that can mean a broad array of integration activities, ranging from interdistrict magnet schools to one-day multicultural festivals. School districts are not required to use their integration revenue to alleviate racial imbalance among schools or school districts.

School district staff with whom we met had varying and, at times, conflicting ideas regarding the purpose of the Integration Revenue program. Some school district staff thought the purpose of the program was to alleviate racial imbalance, others thought it was to reduce the achievement gap, while others thought it was to increase community involvement in the schools. Many school district staff with whom we met expressed a desire for the purpose of the program to be clarified.

School Districts Have Used Their Integration Revenue for a Variety of Purposes

Most districts make their Integration Revenue spending decisions through a collaborative council process, as required by law. School districts' collaboration councils are generally comprised of district staff and teachers, school board members, parents, community members, and sometimes students. Ultimately, the school board in each district must approve the integration plan and budget.

Due in part to differing district needs and in part because the purpose of the program is not clear, school districts use integration revenue for a wide variety of activities. School districts' integration activities range from magnet schools and cross-district transportation to one-time social gatherings for students and families from different cultures.

School districts in the Twin Cities metropolitan area tend to participate in more "traditional" integration programs that bring students of different cultural and ethnic backgrounds together in the classroom. Because distances between schools and districts are much larger in greater Minnesota, some of these programs may not be practical for districts outside the Twin Cities area. Instead, many districts in greater Minnesota have integration programs that are centered on special activities, such as summer academic camps or soccer programs. These programs bring students together on a regular basis, within the constraints imposed by larger geographic distances.

In contrast to the magnet schools and ongoing integration activities mentioned above, some districts have used their integration revenue for questionable

State law does not require districts to achieve explicit outcomes through the Integration Revenue program.

The program's impact has not been measured.

purposes. For example, a few districts used their integration revenue to purchase U.S. history or social studies textbooks for their schools' general curriculum; several districts used their revenue to provide English language learner services; and several other districts used their integration revenue to purchase computers. These expenditures are all existing responsibilities of a school district and are outside of the Integration Revenue program.

Neither the State nor School Districts Have Adequately Assessed the Results of the Integration Revenue Program

Local flexibility is an integral part of the Integration Revenue program, and it allows school districts to identify and implement integration activities that best fit their local needs. However, as a state-funded program, there is also a need for accountability and results. We were unable to determine the impact of the program for three primary reasons: (1) the law does not state specific criteria or explicit outcomes for the program; (2) local school districts vary in the extent to which they evaluate the impact of their integration plan, as required by law; and (3) the Minnesota Department of Education has not evaluated districts' integration programs, as required by rule.

The Racial Concentration of Certain School Districts Has Increased Over the Last Five Years

With the exception of Minneapolis and St. Paul, the differences in protected student enrollment between racially isolated school districts and their adjoining districts have increased. For example, in 2000, 31 percent of the Worthington school district's enrollment was protected students. This compared with a total of 3 percent for Worthington's adjoining districts, a difference of 28 percentage points. By 2005, 42 percent of Worthington's enrollment was protected students, compared with 5 percent for the adjoining districts, a difference of 37 percentage points. Thus, while the percentage of protected students increased in both the Worthington school district and its adjoining districts, the increase was greater in Worthington, leading to a greater concentration of protected students.

While the Integration Revenue program has not decreased the racial concentration of most school districts participating in the program, it is difficult to know what would have occurred in the program's absence. Furthermore, it is difficult to know the extent to which the program can mitigate the influence of other factors such as housing, transportation, and economic opportunities.

The Minnesota Department of Education Has Not Fulfilled Its Responsibilities With Respect to the Integration Revenue Program

The Department of Education (MDE) has provided inconsistent guidance to school districts regarding allowable integration revenue expenditures. The department is responsible for approving most school districts' integration budgets and, as part of this process, must communicate with districts regarding what expenditures are allowed under the Integration Revenue program. Staff in over half of the school districts with whom we met said they would like more guidance regarding the purpose of the Integration Revenue program and allowable ways to use the funding. In addition, staff from 8 of the 20 school districts we visited said that MDE staff have provided inconsistent guidance over the life of the program. This past year MDE implemented some new oversight procedures. In May 2005, the department issued its first written guidance regarding allowable expenditures of integration revenue, and in August 2005 the department more systematically reviewed districts' 2006 integration budgets.

In addition to providing inconsistent guidance, the Department of Education has not provided required Integration Revenue program oversight. For example, MDE has not conducted regular evaluations of districts' integration plans, as required by rule, nor has the department reviewed how districts actually use their integration revenue. MDE also has not provided additional oversight of, or assistance to, school districts that have had a racially identifiable school for three consecutive years, as required by rule.

Finally, to date, MDE has conducted only three in-depth reviews of school districts to determine whether "intentional segregation" exists. (A district is found to have intentional segregation if the racial composition of a school results from acts motivated at least in part by a discriminatory purpose.) There are now 12 districts with racially identifiable schools that MDE should review.

The Integration Revenue Funding Formula Has Unintended Consequences

The Minneapolis, St. Paul, and Duluth school districts receive over half of the state's integration revenue, but are subject to almost no state oversight.

The integration revenue allocated to school districts does not necessarily reflect the needs of different districts, and may provide a disincentive for districts to achieve racial balance among their schools. Because the Integration Revenue funding formula is based on a district's total student population, a smaller district with greater integration challenges may receive less funding than a larger district with fewer integration challenges. Furthermore, the funding formula contains a financial disincentive to fully integrate schools or districts. If districts successfully integrate and achieve "racial balance," they will no longer receive integration revenue.

In addition, the Minnesota Department of Education has no authority to determine whether districts can participate in the Integration Revenue program as voluntary districts. With an isolated district's consent, a school district that is not identified as an adjoining district can choose to become a "voluntary" district and participate in the program without the approval of the Minnesota Department of Education. According to preliminary data, voluntary districts Eden Prairie, Inver Grove Heights, Mahtomedi, Murray County Central, Stillwater, and White Bear Lake received a total of over $3.4 million of integration revenue in fiscal year 2005.

Finally, the Department of Education does not have approval authority for the integration budgets of the Minneapolis, St. Paul, and Duluth school districts, which represent over half of the state's integration revenue ($44.7 million of $78.9 million in fiscal year 2005). These districts are not subject to the department's budget approval or oversight. In contrast, all other school districts must submit a budget to the department outlining how they intend to spend their integration revenue. MDE staff must approve these integration budgets before the districts can receive their integration revenue.

The full evaluation report, *School District Integration Revenue*, includes the Department of Education's response and is available at 651-296-4708 or:

www.auditor.leg.state.mn.us/ped/2005/integrev.htm

Summary of Agency Response

In a letter dated October 28, 2005, Commissioner of Education Alice Seagren wrote that the department has made a "good start" toward having a more effective Integration Revenue program, although she recognized there are additional steps that should be taken. The commissioner also said: "[T]he Department supports all of the recommendations made by the OLA in its report and, in fact, believes they should be considered as an entire "package" by legislators and other stakeholders seeking improvements in the Integration Revenue program. We look forward to working with the Legislature on a number of these recommendations during the 2006 legislative session."