

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.**

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*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 provide 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

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APA Introduction

- School finance equity & adequacy studies
- Linking school finance to student results
- Bi-partisan work for policymakers
- Teacher quality & teacher compensation



School Finance Equity and Adequacy

- From the 1970's to the early 1990's: Equity
- Since 1990: Adequacy more important
 - Historically adequacy was determined politically using input measures and available resources
 - Now adequacy is technically determined and output orientated. Relies on standards-based reform
 - NCLB legislation has increased the need for states to understand the cost of an adequate education



Standards Based Reform

- What is the State's Role?
 - State sets expectations/requirements
 - State assesses performance
 - State holds districts/schools/teachers/students accountable
- Implies that the State must assure that education providers have adequate resources.

Alternative Methods Used to Set the Base Cost

- **Professional Judgment (PJ)** assumes educators can specify the resources needed to meet state standards.
- **Successful School District (SSD)** assumes a cost can be inferred from past successful practices.
- **“Evidence-Based” (EB)** assumes research exists to estimate a base cost, i.e., cost estimates for comprehensive school reform designs.
- **Statistical Modeling (STAT)** uses multiple regression techniques to predict the cost.



APA studies have been sponsored by different entities

- Legislature, governor, or state agency
- Legislature (required by court)
- A single education interest group
- Multiple interest groups (education & civic)



Developments in 2005-2006

- Montana Committee, Special Session
- Kansas Legislative Auditor's Report
- Washington State Study
- California Study
- Nevada Legislative Study

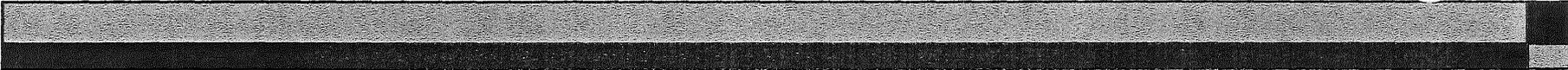
Minnesota Governor's Task Force Recommendations

- Rationally determined, learning-linked, student-oriented and cost-based
- Link education funding to school and student performance
- Local discretion in spending
- Equalized local option referendums
- Promote innovation to maximize resources
- Five-tier system



Task Force - Five Tier Structure

- Instructional services
- Local district revenue
- Innovative programs
- Categorical programs
- Facilities and debt service



Highlights of Task Force Report

- Agreed upon by 17 of the 19 task force members
- Spending decided by school districts
- Substantial data on demographics
- Doing a costing-out study
- Recognizes the full range of activities
- Dissenting letter



Task Force MAP Costing-out Study

- In the Appendix
- Professional Judgment study
- Three teams
- Five results
- Modification concerns

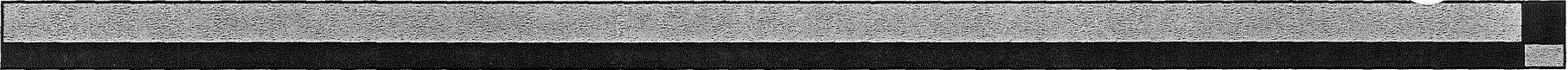
Phase I - Results Including Difference

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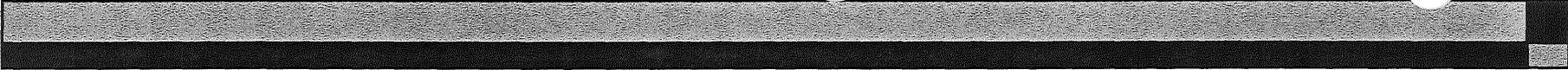
Phase II Focus

- Base Cost
 - SSD
 - PJ
- Adjustments for Special needs students
 - Comes from PJ work
 - Special Education, At-Risk, and ELL



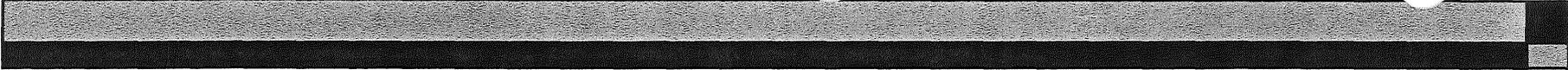
Phase II Focus

- Economies of scale
 - Rural/small schools
 - Size adjustments
 - Sparsely populated areas
- Cost differential
 - cost-of-living adjustment
 - labor market differential



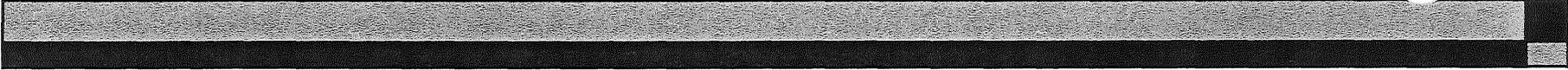
EB Approach

- Relies on work done by Odden and Picus in Arizona, Arkansas, and Kentucky
 - Not related to a specific state standard
 - Based on what a “good” school should look like
 - Resources the same for any school of 500
- Waited for some information from our Nevada work
- Using it do to the lack of transparency in the MAP work



EB Approach

- Results of EB Approach
 - Base cost figure
 - Adjustments for Special Needs students

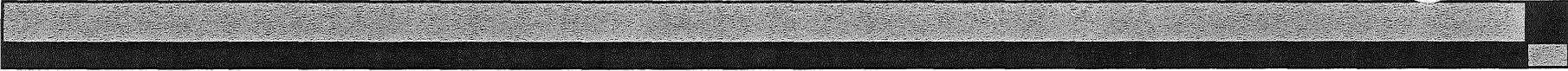


SSD

- Identify Districts using Minnesota tests and standards
- Can look at spending in two ways
 - Total base cost spending
 - Base cost spending broken down by type of spending using efficiency screens

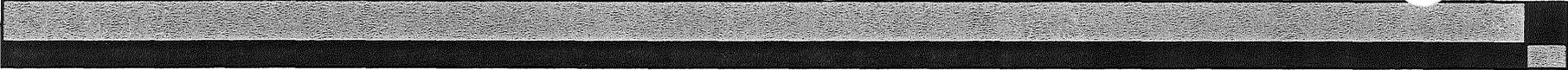
SSD

- Selection of districts used two criteria
 - First, a district has to be showing progress toward meeting a future standard
 - Use a number of years of data and regression analysis to see if districts were on the way to meeting the standard
 - Second, a district has to have high performing sub-groups



SSD

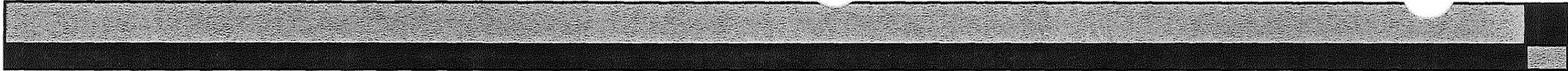
- 45 districts met both standards
- Look at base cost spending for the districts in a number of areas using efficiency filters
 - Instruction
 - Maintenance and Operations
 - Other Support



SSD

□ Results

- Base cost figure for at least three separate spending areas based on the efficiency screens



STAT

- Work being done by Doug Rose with APA
- Economies of scale
 - Rural/small schools
 - Size adjustments
 - Sparsely populated areas
- Cost differential
 - cost-of-living adjustment
 - labor market differential

Final Costing

- Use the EB and SSD work to create two levels of adequacy
 - SSD represents what is needed today
 - EB represents what is needed as standards grow
- Create adjustments for special needs students
 - At-risk
 - Special Education
 - ELL
- Other adjustments from the Stat Approach



Final Costing

- Create adequacy figures for each district in Minnesota for the 2004-05 schools year using both base costs
- Compare to current spending for each district



Questions and Comments
