

Education Finance Overview

January 4, 2023

Bettsy Hjelseth, E-12 Education Analyst

Jenna Hofer, E-12 Education Fiscal Analyst

Presentation Overview

- E-12 Education Nonpartisan Staff
- Education Finance Basics
- November 2022 Forecast Update
- Major Spending Areas & Programs
- National Revenue Comparison
- Useful Resources

Education Finance Committee Nonpartisan Staff

Betty Hjelseth, Analyst

- Phone: (651) 296-3812
- Email: Bettsy.Hjelseth@senate.mn

Jenna Hofer, Fiscal Analyst

- Phone: (651) 296-5259
- Email: Jenna.Hofer@senate.mn

Ann Marie Lewis, Counsel

- Phone: (651) 296-5301
- Email: Ann.Marie.Lewis@senate.mn

SCRFA Website:

<https://www.senate.mn/departments/scrfa/index.php>

Role of Nonpartisan Staff

- Offer confidential analysis and advice to bill authors on options to accomplish legislative goals
- Draft bills for introduction; draft amendments
- Analyze spending, revenue, and policy proposals
- Interpret executive branch fiscal notes
- Track budget effect of legislative decisions
- Advise committee chair and members on legislative rules and procedure
- Assist in legislative oversight of enacted budgets
- Offer other legal advice and opinions upon request

Our services are available to all Senate members. Our work is confidential between us and the member who requested our services.

Education Finance Basics

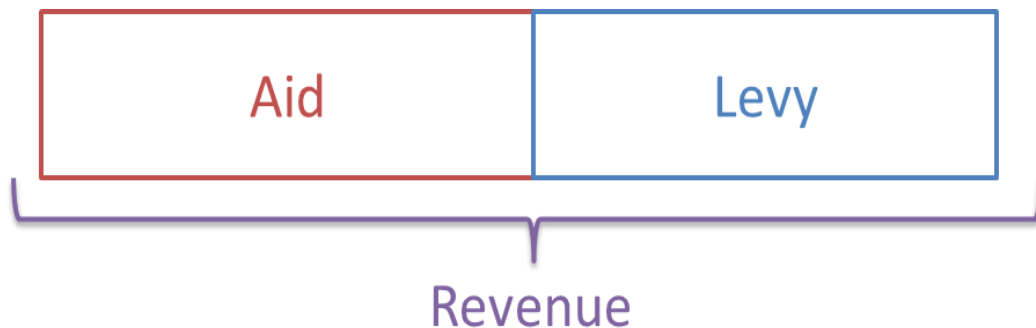
- Terminology
- Pupil Counts
- Revenue Sources
- Historical Trends

Education Finance Basics

Revenue – Money available for school districts to spend. Revenue equals the sum of state aid and local levy.

Levy – Money raised from taxation on property within a school district. May be levied on market value or adjusted net tax capacity.

Aid – Money raised primarily from state income and sales taxes and paid to school districts through the Department of Education.



School districts receive revenue through state aid payments and local property taxes levies. Charter schools do not have levy authority. All charter school revenue is state aid.

Education Finance Terms (cont.)

Aid Entitlement – The total amount of state aid a district or charter school is eligible to receive in a fiscal year. This is the amount of aid a school recognizes as revenue for a given fiscal year. Aid may be paid over two fiscal years.

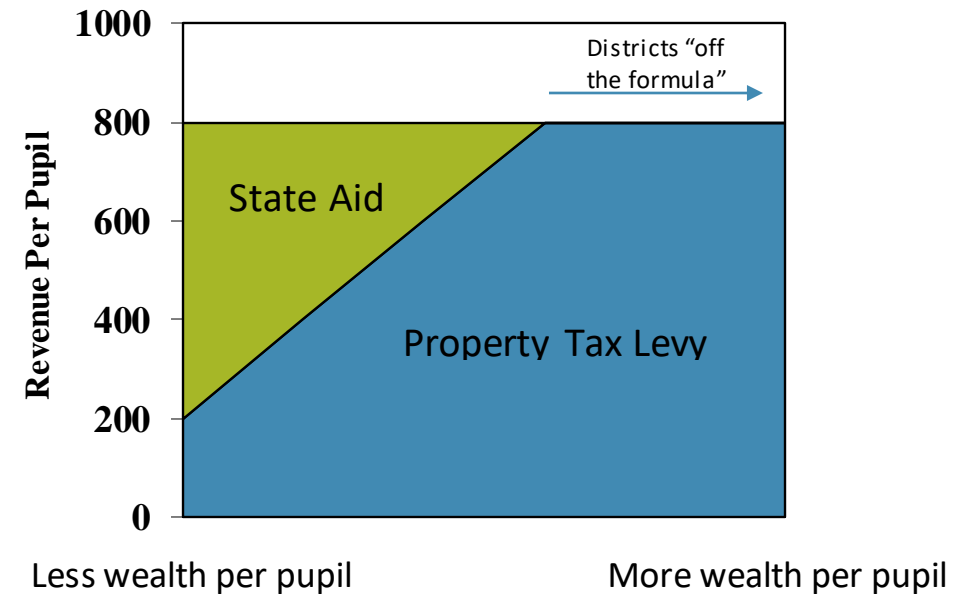
Current Payment - The percentage of an entitlement that is paid in the fiscal year in which the state aid is generated.

Final Payment - The percentage of an entitlement that is paid in the fiscal year after the state aid is generated. The difference between the prior year's entitlement and current payment.

Appropriation – The amount of state aid *actually paid* to districts and charter schools in a given fiscal year. It usually contains part of an aid entitlement from the current fiscal year as well as a final payment from the previous fiscal year entitlement.

Aid & Levy Revenue

- Some school district levies are “equalized.” For example, the operating capital levy and referendum levy are equalized levies.
- **Levy Equalization** – A mechanism to reduce the disparities in local tax rates between property-rich and property-poor districts. Districts with relatively less property wealth receive more state aid.
- For a district with relatively low property wealth per pupil, an equalized levy will be reduced and offset in an equal amount with state aid. This reduces the cross-district disparities in local tax rates required to raise the same amount of money. Some districts do not qualify for any equalized aid and are “off the formula.”



Pupil Count Terms

Average Daily Membership (ADM) – a basic count of students in a school district. A student who is enrolled the entire year generates 1.0 ADM.

Adjusted Pupil Units (APU) – a weighted count of students in average daily membership. Full-time students in grades K-6 are weighted at 1.0; students in grades 7-12 are weighted at 1.2. Most school revenue formulas are driven by adjusted pupil units.

Resident Pupil Units – a weighted count of a district's resident students. Although some resident students might be served in other districts or charter schools, some equalization formulas are driven by resident pupil units.

Other pupil counts are defined for compensatory pupils, English learner pupils, students enrolled in PSEO, and other programs.

School District Revenue Sources



In an average year, about 8% of Minnesota's E-12 education revenue comes from the federal government. The funding primarily supports special education, nutrition, and Title I programming.



The MN Constitution requires the state to provide “a general and uniform system” of education “by taxation or otherwise.” As a result, the state provides a significant amount of funding to schools. The amount varies by district. State funding formulas are largely based on pupil counts, with some funding based on actual expenses or property wealth.

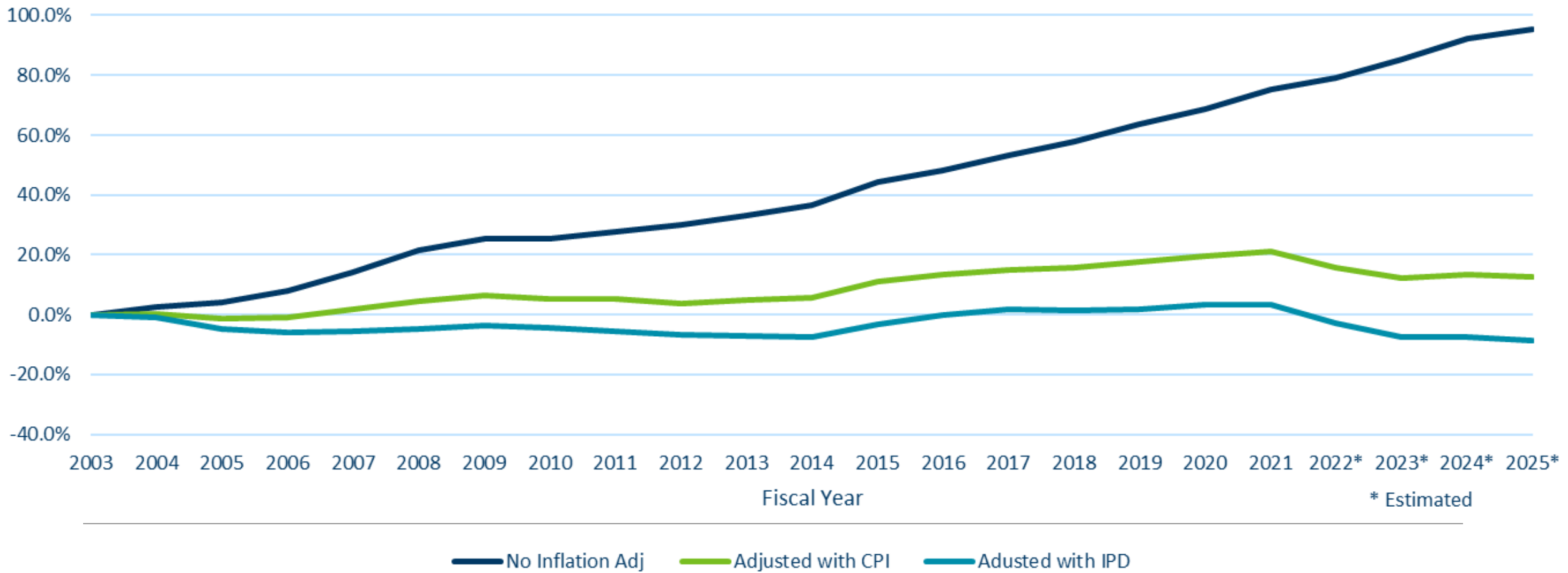


Property owners contribute to their local school district through taxes, or levies. The amount of local levy a property owner pays varies, as some levies are determined at the state level while others are locally determined by the school board or voters.

School District General Fund Revenues

Based on November 2022 Forecast

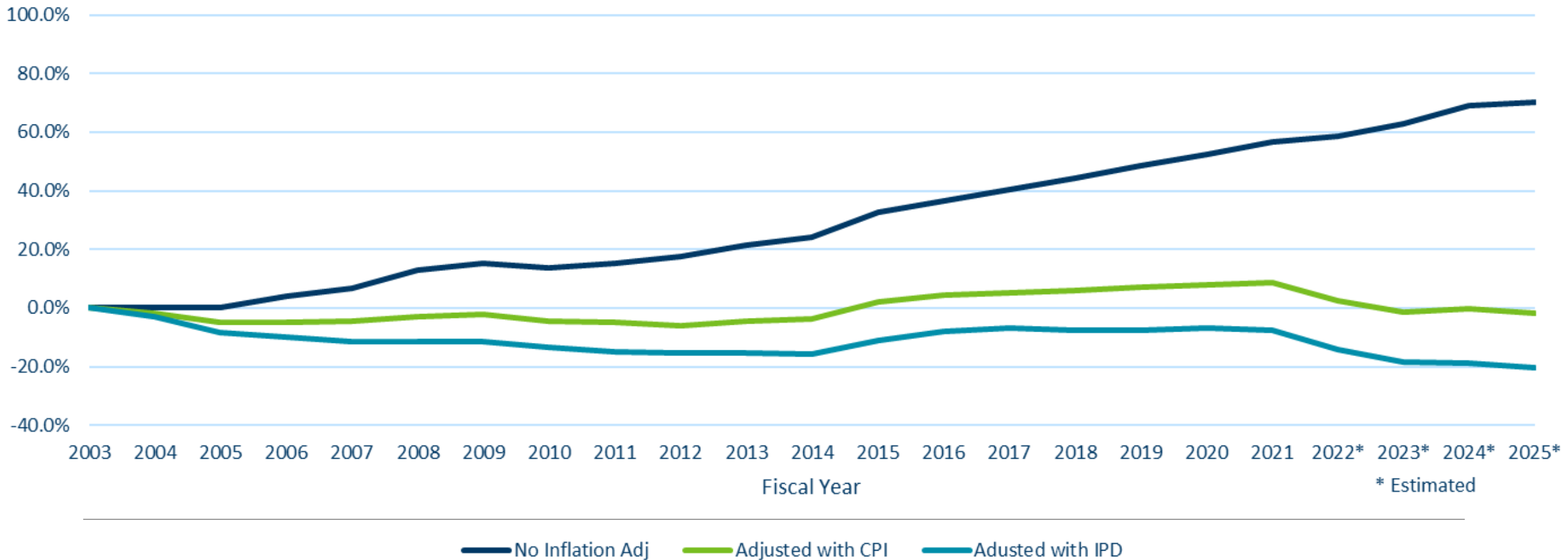
Percent Change in Revenue Per AADM Since FY2003



* Estimated

School District General Fund State Aid *Based on November 2022 Forecast*

Percent Change in State Aid Per AADM Since FY2003

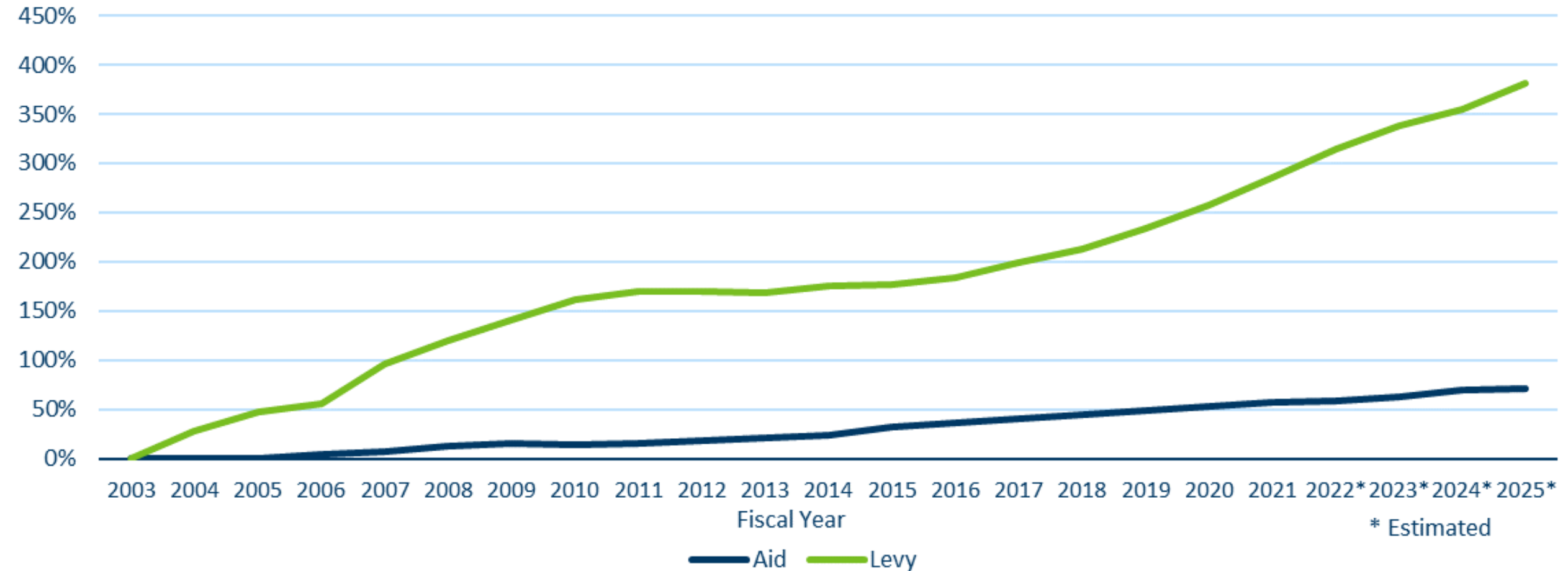


* Estimated

Districts Increasingly Depend on Levy

Based on November 2022 Forecast

Nominal Percent Change in Aid and Levy Per AADM Since FY2003



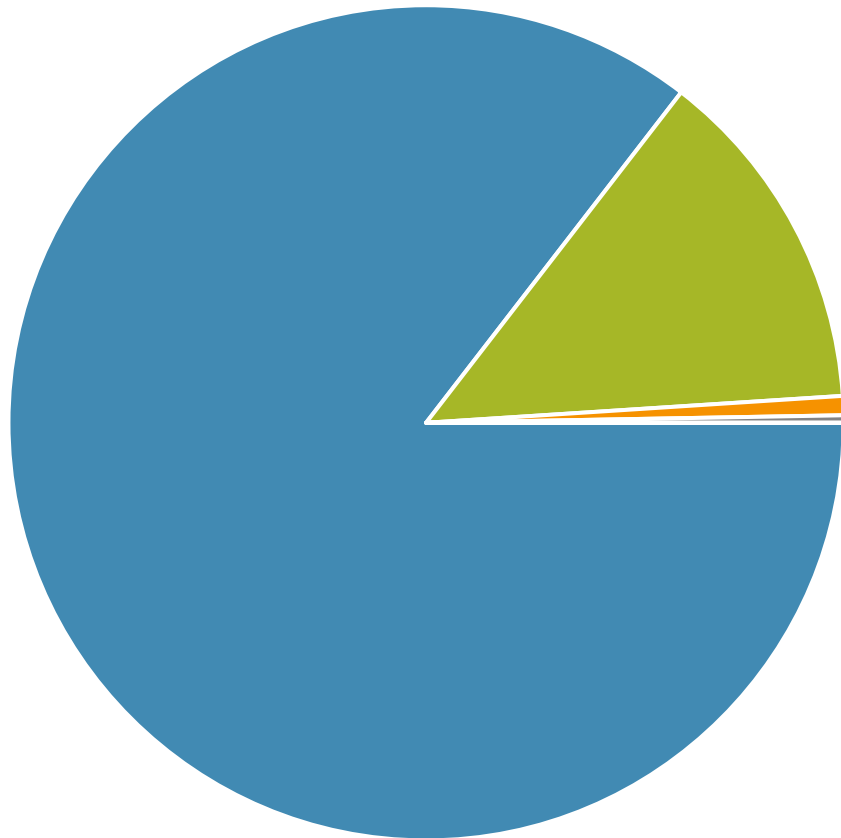
* Estimated

November 2022 Forecast Update

- State Budget Overview
- E-12 Education All Funds Budget
- E-12 Education Property Tax Budget
- E-12 Education General Fund Budget

E-12 Education All Funds Budget, FY2024-25

Base Budget \$24.9 Billion, 23.7% of Minnesota's Total All Funds Budget



General Fund

\$21,251,951

85.5% of All Funds

Permanent School Fund

\$71,240

0.3% of All Funds

Federal Fund

\$3,358,834

13.5% of All Funds

Gift Fund

\$438

0.0% of All Funds

Special Revenue Fund

\$183,847

0.7% of All Funds

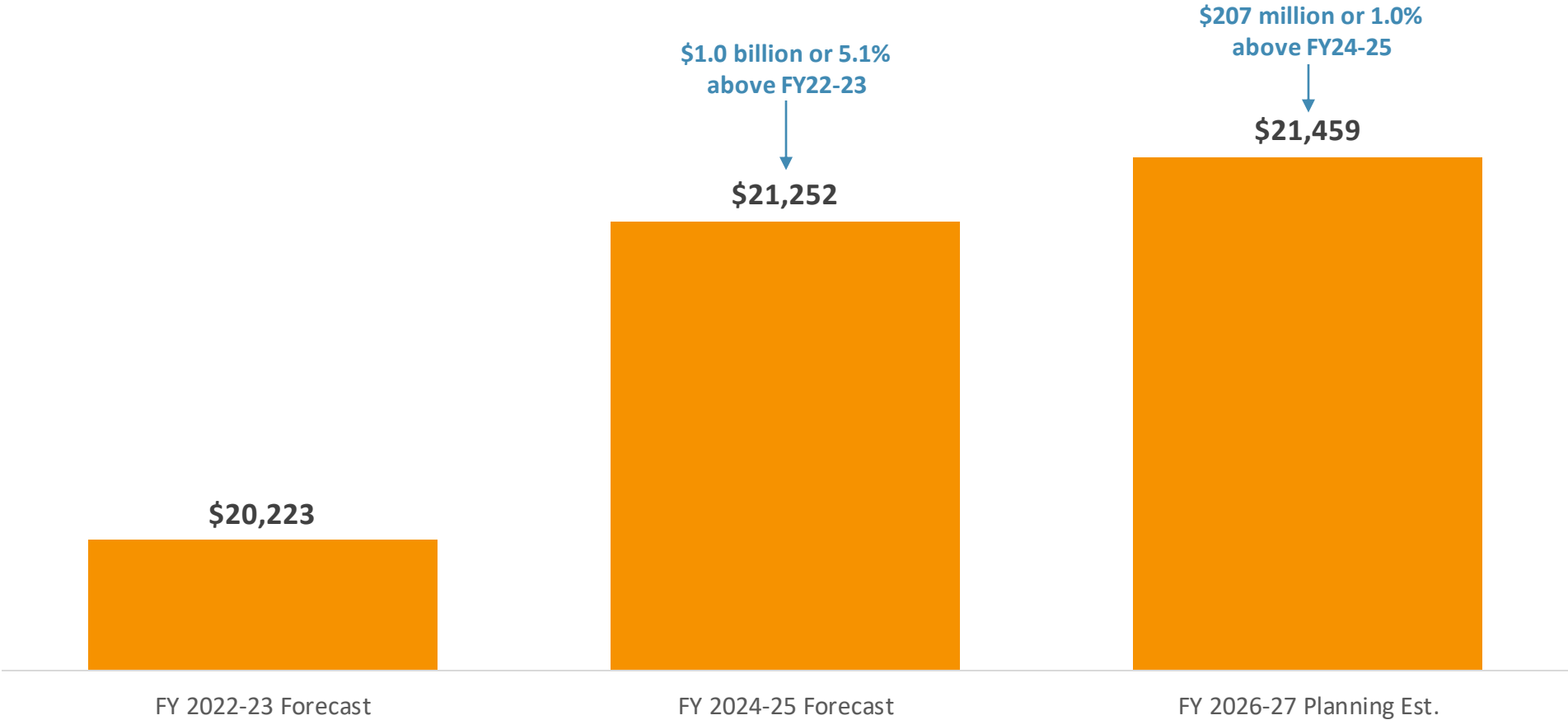
General Fund Spending, FY 2024-25

E-12 is 39.4% of MN's General Fund budget, making it the largest budget jurisdiction
Dollars in Thousands

	FY 2024-25	% of E-12 General Fund Budget
General Education	\$15,547,394	73.2%
Special Education	\$4,006,914	18.6%
Education Excellence & Teachers	\$770,296	3.6%
Early Education	\$343,847	1.6%
Facilities & Technology	\$269,744	1.3%
Lifelong Learning	\$111,700	0.5%
State Agencies	\$109,854	0.5%
Nutrition Programs	\$56,062	0.3%
Library Programs	\$36,140	0.2%
Community Education	\$7,929	0.0%
Total	\$21,251,951	

Forecasted E-12 General Fund Spending

Dollars in Millions

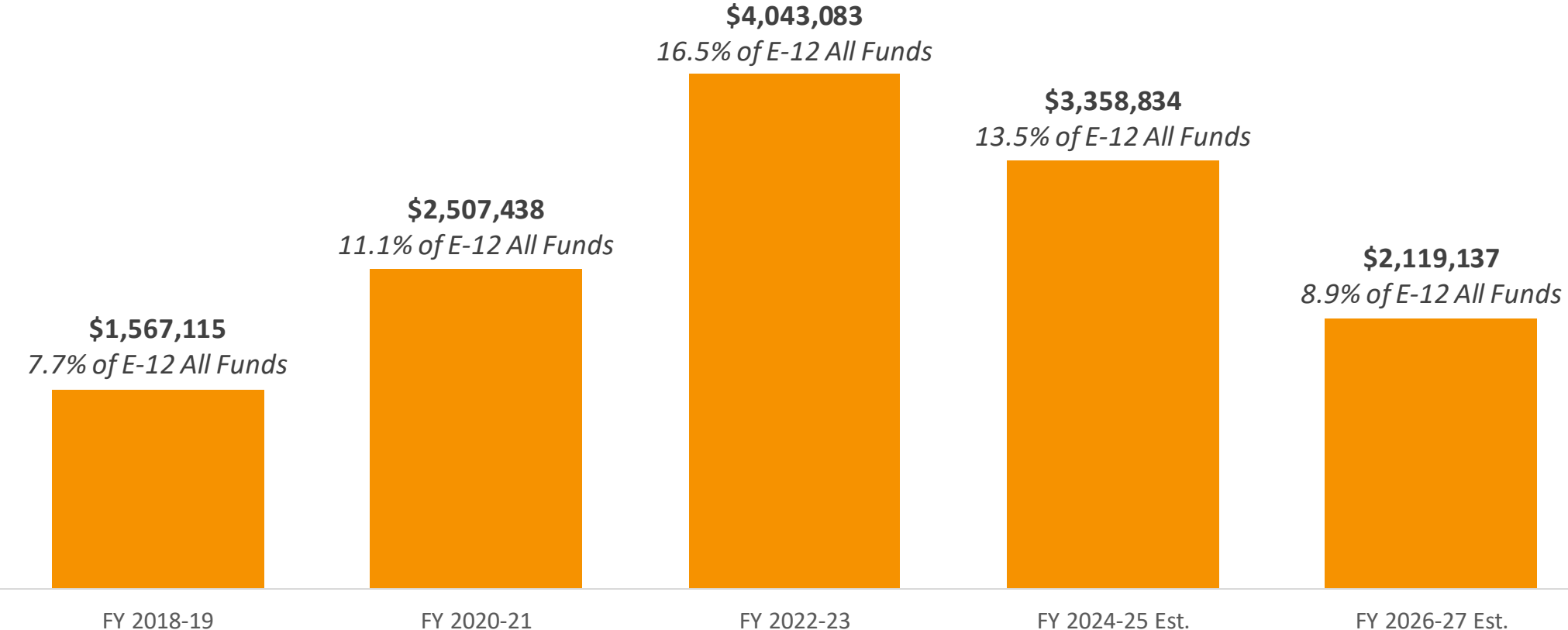


E-12 Property Tax Budget

	FY 2024-25
General Fund	\$4,778,341
Community Service Fund	\$190,240
Debt Service Fund	\$2,342,269
OPEB/Pension Debt Service	\$89,508
Total School District Levies	\$7,400,358
Credits & Adjustments	\$(221,023)
Total Certified Levies	\$7,179,335

E-12 Federal Funds

Dollars in Thousands



Major Spending Areas & Programs

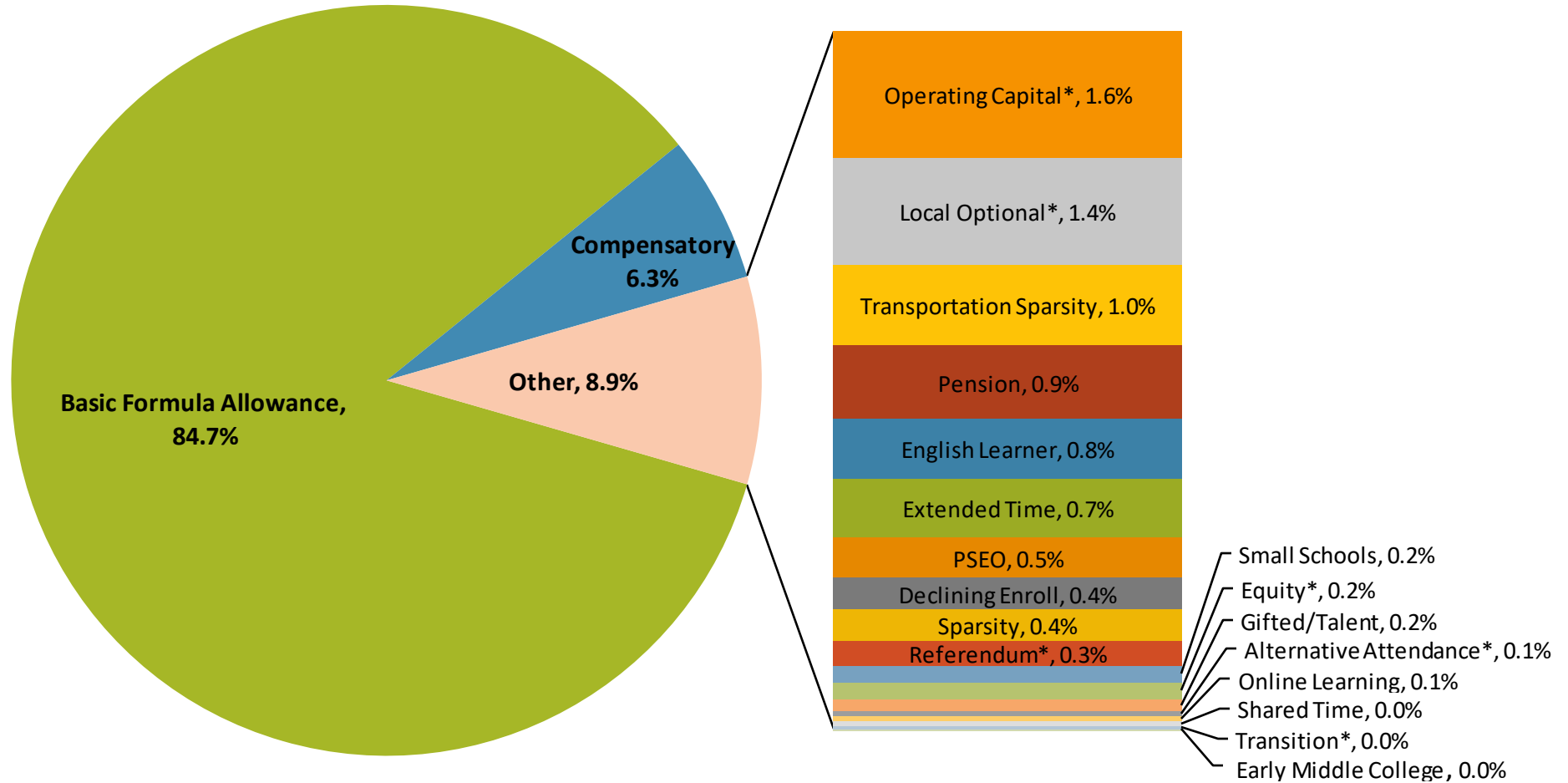
- General Education
 - Basic Revenue
 - Compensatory Revenue
 - English Learner Revenue
 - Referendum Revenue
 - Local Optional Revenue
- Special Education
- Education Excellence & Teachers
- School Facilities
- Nutrition
- Libraries
- Early Childhood Education
- Community Education & Lifelong Learning
- State Agencies

General Education Revenue

- Primary funding source for school districts
- Sum of more than a dozen funding streams
- Mostly aid, with some equalized levy authority
- Majority of the revenue may be used for any general operating purpose
- Largest component of the state education budget

General Education Aid Entitlements, FY 2023

\$7.5 Billion, Based on November 2022 Forecast



*Includes a levy component.

Basic Revenue

Establishes minimum funding level for school districts and charter schools

For FY 2023 and later, the formula allowance is \$6,863

The formula allowance amount is a factor in other formulas, including compensatory, early childhood family education aid, and nonpublic aids. Changes to the formula allowance impact these aids.

$$\text{Basic Revenue} = \text{Formula Allowance} \times \text{Adjusted Pupil Units}$$

FY 2023 Basic Education Revenue: \$6.4 billion

Compensatory Revenue

Based on each district's number of students eligible for free and reduced-price meals (FRP), which is intended to be a proxy measure for poverty

FRP-eligible students are counted through direct certification and parent-submitted forms

- Beginning SY 2022-23, Minnesota is participating in USDA pilot to match based on Medicaid data

Aid must be allocated to the site where the pupil who generated the aid is served, except that a school board may adopt plan to allocate up to 50% of aid in other way

$$\text{Compensatory Revenue} = (\text{Formula Allowance} - \$839) \times \text{Compensatory Pupil Units}$$

FY 2023 Compensatory Revenue: \$481.1 million

English Learner (EL) Revenue

Districts receive EL revenue based on the number of enrolled students with limited English skills

Students may generate EL revenue for up to seven years

For FY 2022-25 only, an additional \$2 million per year will be distributed proportionally to districts and charter schools

Basic EL =

$\$704 \times (\text{greater of } 20 \text{ or district's EL Pupil Units})$

EL Concentration Revenue =

$\$250 \times \text{District's EL Concentration Pupils}$

FY 2023 EL Revenue: \$58.0 million

English Learner Cross Subsidy

The English learner cross subsidy is the difference between the actual expenditures for qualifying English learner services and the school district's English learner revenue.

(in 000's)	FY19	FY20	FY21 Est.
EL Total Revenue	58,438	58,639	54,956
UFARS Expenditures	163,315	176,918	201,652
EL Cross Subsidy	104,877	118,279	146,696

Referendum Revenue

School board proposes and voters approve referendum revenue allowance

Most districts are subject to referendum allowance limit: \$2,051 per pupil for FY 2023. Districts eligible for sparsity revenue may exceed the limit.

Two-tiered formula used for calculating revenue and equalizing aid

Referendum Revenue = Referendum Allowance x APU
Referendum Levy (simplified) = Revenue x (Referendum Market Value Per Pupil/Equalizing Factor)
Referendum Aid = Referendum Revenue minus Referendum Levy

FY 2023 Referendum Revenue: \$854.9 million, of which \$24.6 million is aid & \$830.3 million is levy

Local Optional Revenue

Local optional revenue (LOR) equals the sum of the district's first tier LOR and second tier LOR. Charter schools are not eligible for LOR.

First Tier LOR = \$300 x APU

Second Tier LOR = \$424 x APU

Local Optional Revenue= First Tier LOR + Second Tier LOR
First Tier LOR Levy = First Tier LOR x (Referendum Market Value Per Pupil/\$8,800)
Second Tier LOR Levy = Second Tier LOR x (Referendum Market Value Per Pupil/\$5,500)
Local Optional Aid = Revenue minus Levy

FY 2023 Local Optional Revenue: \$623.1 million, of which \$103.3 million is aid & \$519.8 million is levy

Other General Education Programs

Several other programs exist outside the general education revenue entitlement to provide funds for other general education purposes.

	FY 2023 Base
Career and Technical Revenue*	\$37.9 million
Nonpublic Pupil Aid	\$19.3 million
Nonpublic Pupil Transportation Aid	\$19.6 million

*Program includes a levy component.

Special Education Revenue

147,063 students (16.9%) received special education services in fall of 2022.

Aid is based on initial aid, excess cost aid, tuition adjustments, and cross subsidy aid.

Initial aid is the lesser of three formulas: a grandfathered aid amount under old law, prior year non-federal special education expenditures, or sum of census-based allowances.

Dedicated state and federal special education aids do not cover actual cost. Schools must use general revenue to cover difference. The statewide average gross cross subsidy is estimated to be \$824/pupil for FY2022.

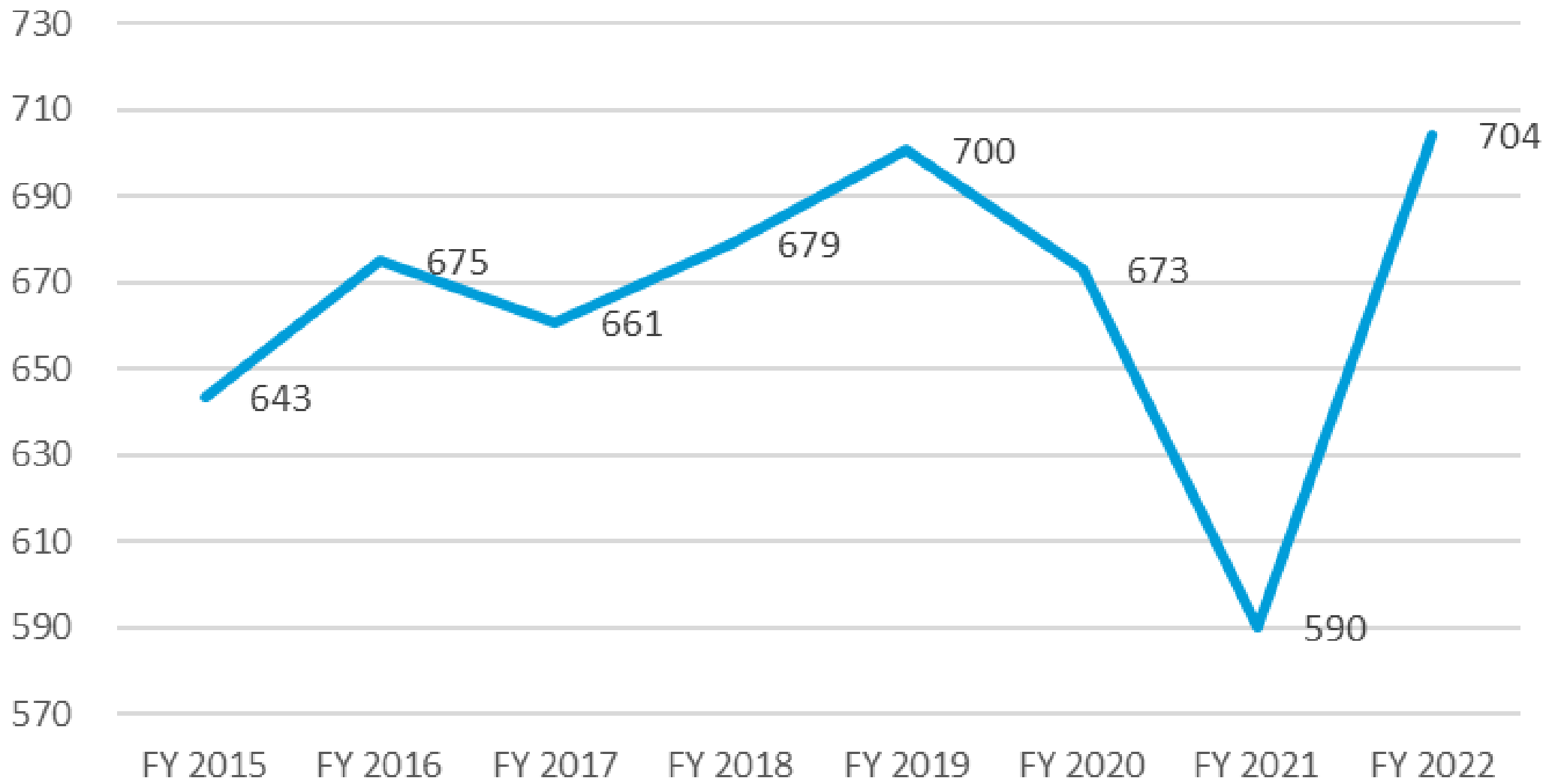
Special Education Cross Subsidy

The special education adjusted net cross subsidy is the difference between the amount the district spends on qualifying special education services and the sum of the state and federal special education revenue, and the general education revenue generated by special education students served primarily outside of the regular classroom for that year.

Maintenance of Effort - the federal requirement that LEAs spend at least \$1 more on special education from one year to the next.

Maintenance of Financial Support – the federal requirement that states must meet in order to gain access to federal special education funds. States are required to make available at least the same amount of state financial support from one year to the next or they will have federal aid reduced by the same amount by which they failed to meet the requirement.

Special Education Cross Subsidy (in millions)



Other Special Education Programs

	FY 2023 Base
Aid for Children with Disabilities (Special Pupil)	\$1.5 million
Travel for Home-based Services	\$386,000
Out of State Tuition	\$250,000
Court-Placed Aid	\$25,000

Education Excellence & Teachers

Categorical programs to provide funds for teachers and other specific, education-related purposes.

	<u>FY 2023 Base</u>
Alt Teacher Compensation (“Q-Comp”)*	\$128.4 million
Achievement and Integration Revenue*	\$116.3 million
Literacy Incentive Aid	\$46.1 million
American Indian Education Aid	\$11.8 million
Grow Your Own Grant Program	\$6.5 million
Concurrent Enrollment	\$4.0 million

*Program includes a levy component.

School Facilities Funding

	<u>FY 2023 Base</u>
Basic Debt Service Revenue*	\$813.0 million
Long-Term Facilities Maintenance Revenue*	\$583.2 million
Capital Projects Levy	\$147.5 million
Building Lease Levy	\$98.4 million
Charter School Building Lease Aid	\$89.7 million
Telecommunications Access Aid	\$3.8 million

*Program includes a levy component.

Nutrition

State aid is provided to supplement federal aids for school breakfast, lunch, milk, and summer food service programs. Minnesota served over 90 million lunches and 43 million breakfasts in FY 2022.

	FY 2023 Base
School Lunch	\$16.8 million
School Breakfast	\$10.6 million
School Milk	\$659,000
Summer Food Service Program	\$150,000

Library Programs

The committee has jurisdiction over public libraries, except county law libraries.

	FY 2023 Base
Basic System Support	\$13.6 million
Regional Library Telecommunications Aid	\$2.3 million
Multicounty, Multitype Library Systems	\$1.3 million
Electronic Library for Minnesota	\$900,000

Early Childhood Education

The committee has jurisdiction over early childhood education programs. Programs related to childcare fall within the Human Services jurisdiction.

	FY 2023 Base
Early Learning Scholarships	\$70.7 million
Early Childhood Family Education (ECFE)*	\$57.4 million
School Readiness	\$33.7 million
Head Start	\$25.1 million
Developmental Screening Aid	\$3.5 million

*Program includes a levy component.

Community Education & Lifelong Learning

	FY 2023 Base
Basic Community Education*	\$41.7 million
School-Age Care*	\$21.9 million
Adult Basic Education (ABE)	\$51.8 million
Education Partnership Program – Tier 1 & 2	\$3.3 million
High School Equivalency Tests	\$250,000

State Agency Budgets

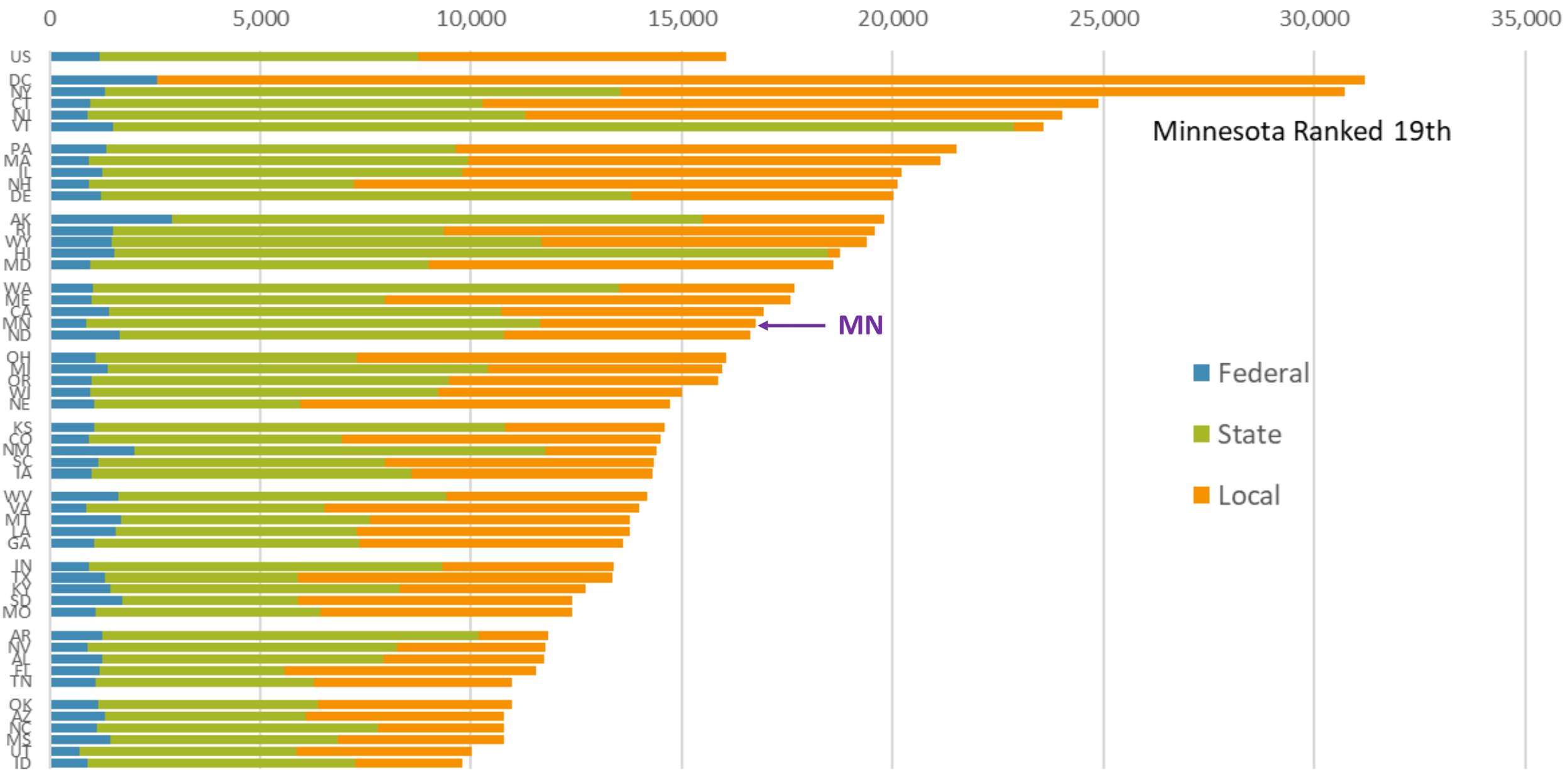
The committee has jurisdiction over state agencies relating to education and teacher licensure.

	FY 2023 Base
Minnesota Department of Education	\$31.5 million
• <i>Board of School Administrators (BOSA)</i>	<i>\$367,000</i>
Minnesota State Academies	\$15.2 million
Professional Educator Licensing & Standards Board (PELSB)	\$8.4 million
Perpich Center for Arts Education	\$7.9 million

National Revenue Comparison

- Total Revenue
- Federal Revenue
- State Revenue
- Local Revenue

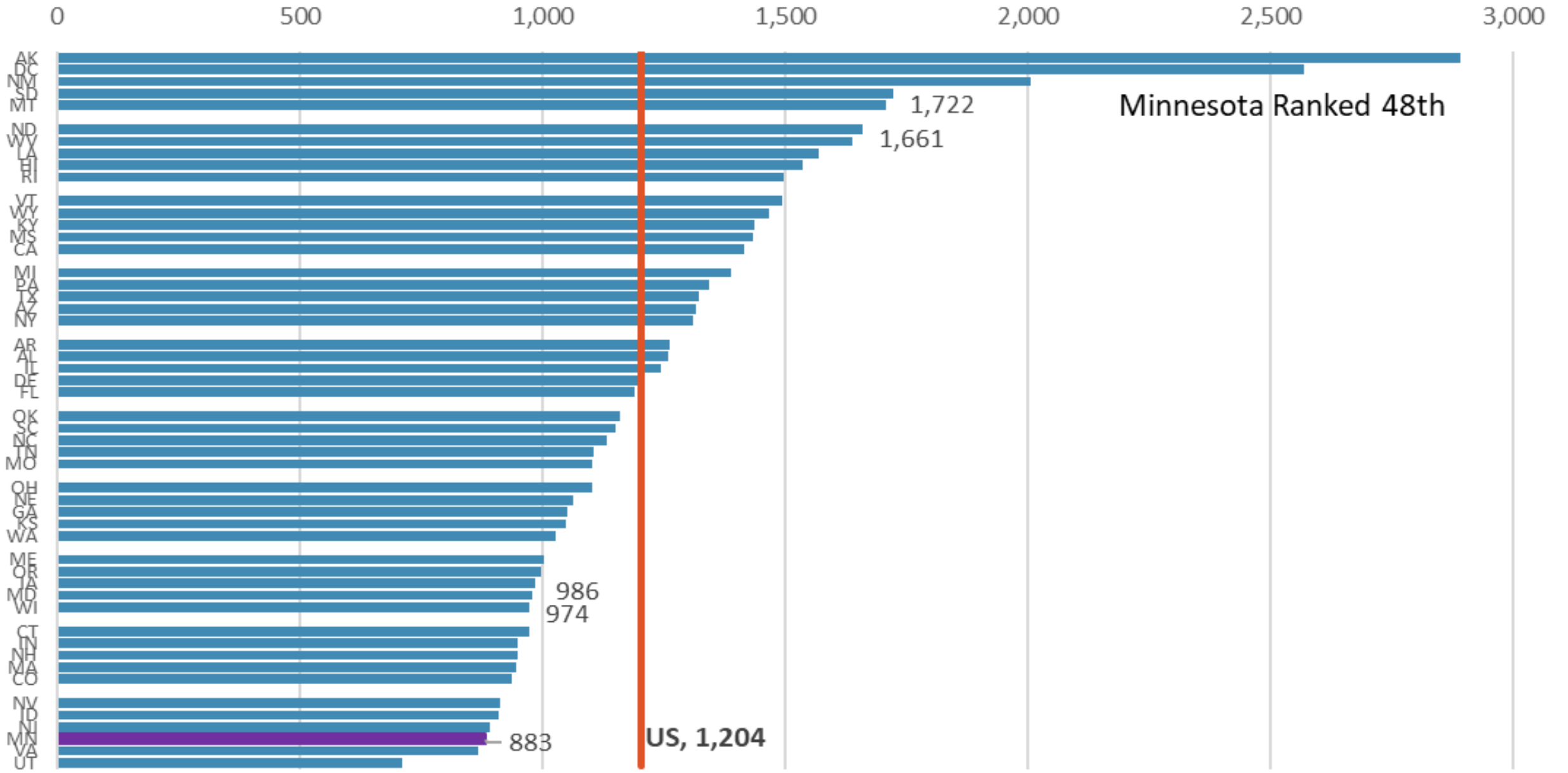
2020 Revenue by Source, Per Pupil



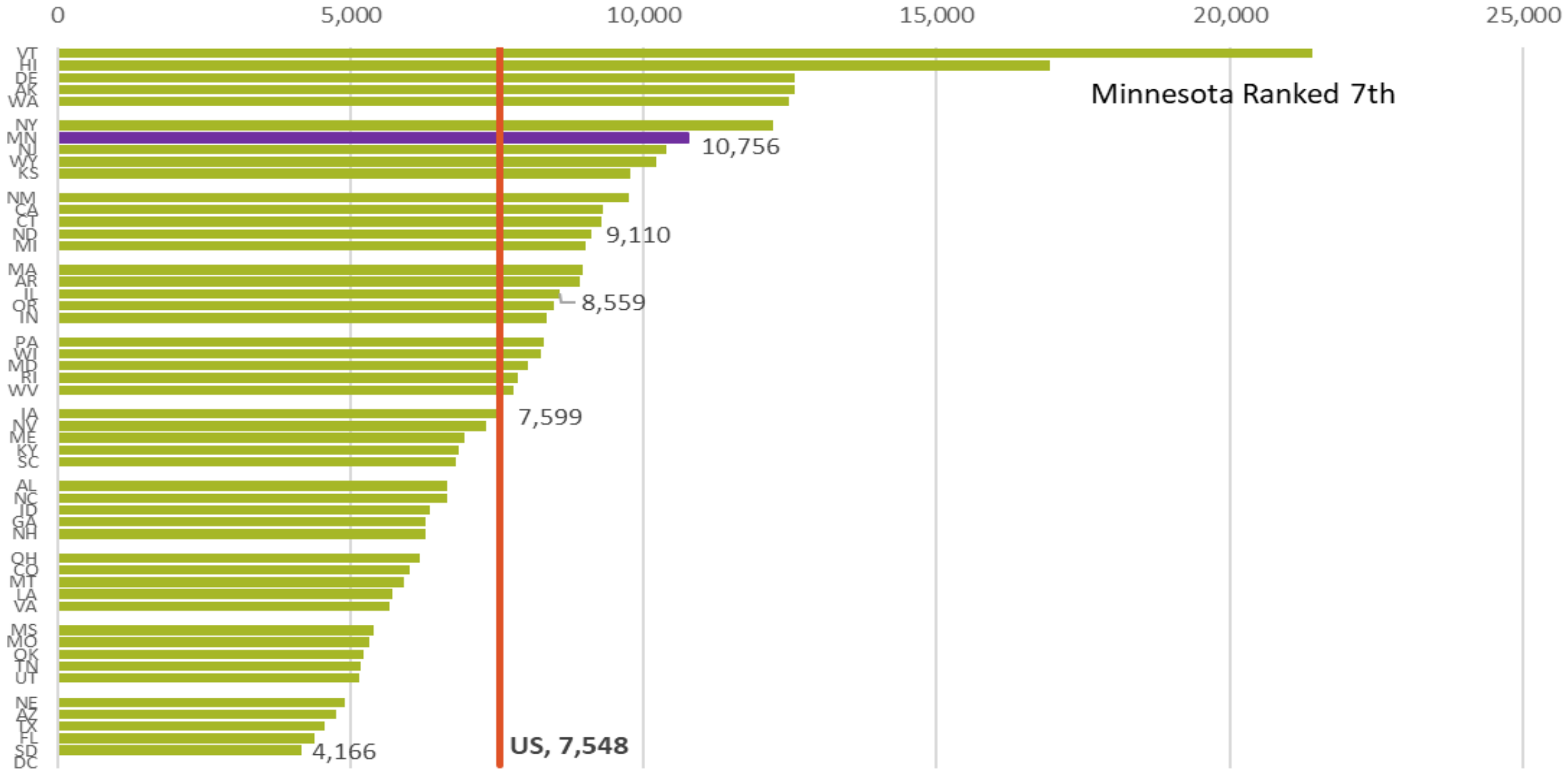
Minnesota Ranked 19th

- Federal
- State
- Local

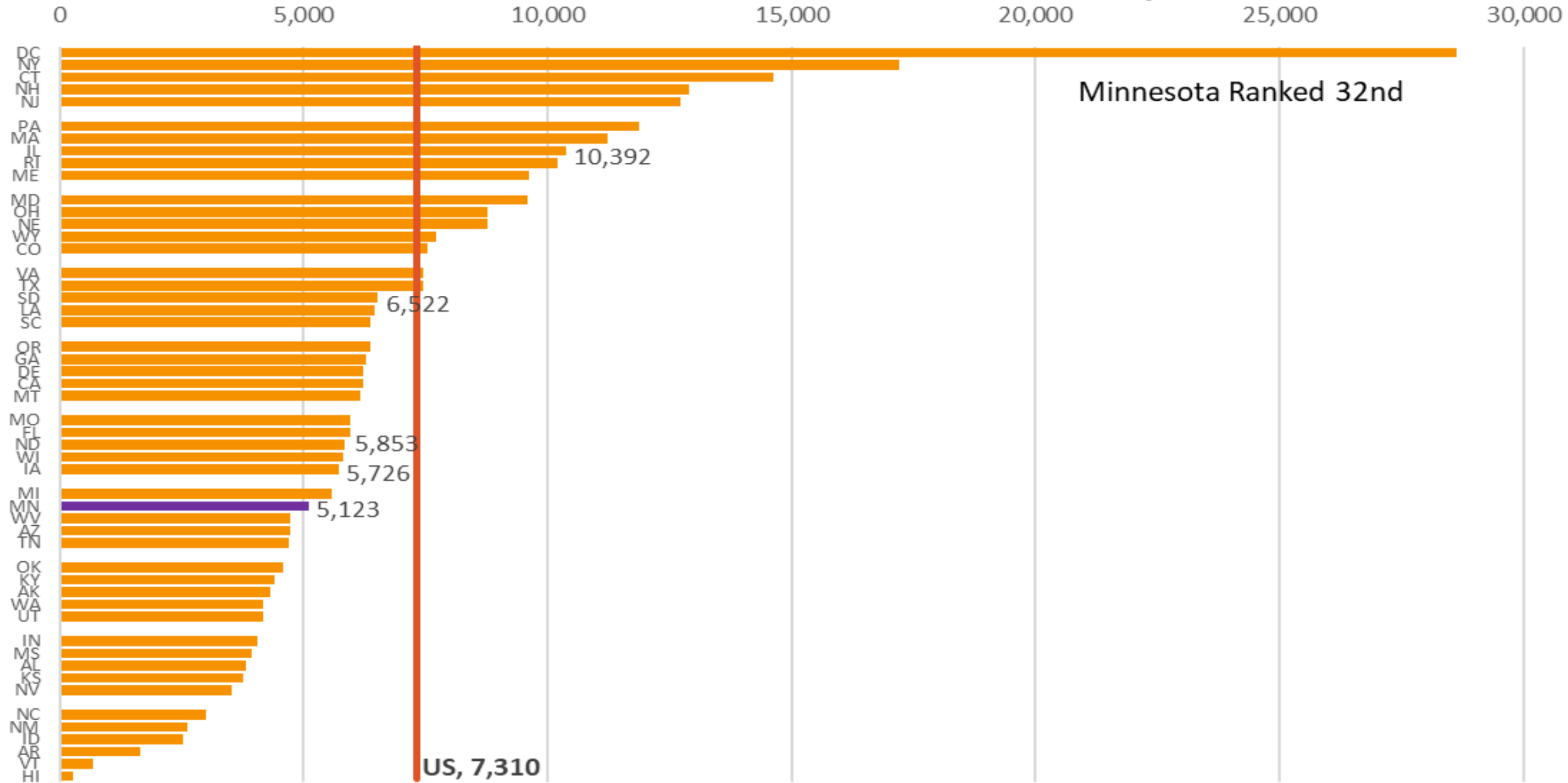
2020 Federal Revenue, Per Pupil



2020 State Revenue, Per Pupil



2020 Local Revenue, Per Pupil



Useful Resources

- Bill Summaries
- Tracking Spreadsheets
- Fiscal Notes
- Data Runs
- MDE Staff and Data Center

Bill Summaries

- SCRFA staff create summaries for selected bills, typically those that receive a committee hearing.
- Summaries may be updated for new versions of a bill to reflect adopted amendments.
- SCRFA and House Research staff collaborate to create side-by-side comparison summaries that summarize and compare similar bill provisions to be negotiated in a conference committee.
- When bills are passed by both bodies and signed by the governor, summaries may be created for selected acts.
- Bill summaries can be found on the SCRFA website at:
 - https://www.senate.mn/departments/scr/billsumm/index.html?summary_type=bill

Tracking Spreadsheets

- E-12 uses two spreadsheets:
 - State aid appropriations
 - Property tax levies
- Track and compare executive and legislative budget proposals throughout the budget process
- Useful for modeling and analyzing budget proposals
- Provide historical record of budget decisions
- Available from fiscal analyst or downloaded from SCRFA website at:
 - <https://www.senate.mn/departments/fiscalpol/tracking/index.php?ls=#header>

Fiscal Notes

- Estimate the impact of proposed legislation on state budget relative to current law. E-12 fiscal notes may estimate a local levy impact.
- Three types: regular, unofficial, and classified
- Current process:
 - Member asks fiscal analyst to request fiscal note
 - Fiscal analyst submits request
 - Legislative Budget Office sends to appropriate agencies
 - Agency estimates revenues/costs
 - LBO reviews and publishes online (except classified), to: <https://mn.gov/mmbapps/fnsearchlbo/>
- Local Impact Notes, which estimate the impact of proposed legislation on local government units, may also be requested. They may take several months to complete.

Data Runs

- Show aid/levy/revenue impacts of school finance proposals on individual districts and charter schools relative to current law
- Prepared by SCRFA staff for committee members and public for bill hearings
- At member request, can be confidentially prepared for pre-introduction bill drafts

MDE Staff and Website

- Upon request, we can obtain information from MDE or other agencies without revealing the identity of the requesting Senate member.
- The MDE “Data Center” hosts current and historical data on student assessment, school staffing, pupil data, school finance and more. We regularly assist Senate members and staff in obtaining, interpreting, and analyzing data as needed.
 - <https://education.mn.gov/MDE/Data/>

Questions?