

Revised

Fiscal Note

2023-2024 Legislative Session

SF448 - 0 - General Education Basic Formula; Inflation Link

Chief Author: **Heather Gustafson**
 Committee: **Education Finance**
 Date Completed: **3/1/2023 7:45:39 AM**
 Agency: **Education Department**

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

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2023	FY2024	FY2025	FY2026	FY2027
General Fund	-	339,415	731,673	913,044	1,090,632	
Total	-	339,415	731,673	913,044	1,090,632	
Biennial Total			1,071,088		2,003,676	

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2023	FY2024	FY2025	FY2026	FY2027
General Fund	-	-	-	-	-
Total	-	-	-	-	-

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

This fiscal note was revised to reprice the bill for the February 2023 forecast, as well as to correct an error that excluded the impacts to categorical formulas that are driven by the per-pupil general education funding formula. Additional detail was also added to the long term fiscal impacts section.

LBO Signature: Alyssa Holterman Rosas **Date:** 3/1/2023 7:45:38 AM
Phone: 651-284-6439 **Email:** alyssa.holterman.rosas@lbo.mn.gov

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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands		FY2023	FY2024	FY2025	FY2026	FY2027
General Fund	-	339,415	731,673	913,044	1,090,632	
Total		-	339,415	731,673	913,044	1,090,632
Biennial Total			1,071,088		2,003,676	
1 - Expenditures, Absorbed Costs*, Transfers Out*						
General Fund	-	339,415	731,673	913,044	1,090,632	
Total		-	339,415	731,673	913,044	1,090,632
Biennial Total			1,071,088		2,003,676	
2 - Revenues, Transfers In*						
General Fund	-	-	-	-	-	
Total		-	-	-	-	-
Biennial Total			-		-	

Bill Description

This bill amends Statutes 2022, section 126C.10, subdivision 2.

Section 1 increases the general education basic revenue formula allowance to \$7,206 for FY 2024 and to \$7,566 for FY 2025 which is a 5% increase in the formula allowance from year to year. The formula allowance for FY 2026 and later equals the formula allowance for FY 2025 and the change in the Consumer Price Index for urban consumers from the current fiscal year to FY 2025.

Section 2 appropriates sums from the general fund for the change in general education aid. Basing the change in formula allowance from the current fiscal year to fiscal year 2025 as written could make it difficult for districts to budget because the amount of the formula allowance would not be finalized until after the start of the current fiscal year.

CPI is based on the actual published CPI from the U.S. Bureau of Labor Statistics and projected CPI provided by Minnesota Management and Budget. For example, MDE calculates CPI for referendum. CPI isn't final until after the end of the fiscal year in mid-July. FY23 uses a combination of BLS actual and MMB projected CPI for MDE updates to referendum for September and December CPI. FY23 CPI is final once the BLS June 2023 actuals are published in mid-July of 2023. CPI for FY24 is currently based on the MMB projections.

Assumptions

A technical defect of the bill is that it does not specify at what point MDE should calculate the formula allowance increases due to annual inflation adjustments. An example of clear direction on timing comes from Minnesota Statutes 298.24, Subd 1(b) states: *For concentrates produced in 2014 and subsequent years, the tax rate shall be equal to the preceding year's tax rate plus an amount equal to the preceding year's tax rate multiplied by the percentage increase in the implicit price deflator from the fourth quarter of the second preceding year to the fourth quarter of the preceding year.* A similar provision in this bill would help to clarify the timing and details of the annual formula allowance adjustment.

Specifying a point in time to set the inflationary increase allows adequate time for MDE to make entitlement calculations and to develop the entitlement calculations and to communicate these changes to districts for their planning and budgeting purposes. Additionally, changing the formula allowance to be based on the prior year CPI increase would allow districts to know the formula allowance ahead of the current fiscal year. It would increase the formula allowance for inflation with a one-year delay.

Line 1.17 references the United States Bureau of Labor Standards. The actual name of the agency is the United States

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Bureau of Labor Statistics. The Bureau of Labor Statistics updates the Consumer Price Index for urban consumers monthly.

Calculations in this fiscal note use February 2023 forecast information and the December 2022 United States Bureau of Labor Statistics actual CPI for FY26 and FY27 inflation. This CPI is a point in time forecast from the Bureau of Labor Statistics and the CPI will fluctuate as it becomes finalized over the next several years.

The calculations include impacts to the following linked categorical programs: Early Childhood Family Education (ECFE), tribal contract schools, nonpublic pupil education aid and nonpublic pupil transportation aid. It also includes the following off-model general education programs: PSEO, shared time aid, online learning aid and private contract alternative aid.

Expenditure and/or Revenue Formula

The following formula allowances are used in calculations for this fiscal note. Formula allowance amounts are rounded to the nearest dollar when calculating the CPI. The general education formula allowance for FY23 is \$6,863.

	FY 24	FY 25	FY 26	FY 27
HF0439-0	5.0000%	5.0000%	1.9774%	2.1698%
Formula Allowance	\$7,206	\$7,566	\$7,716	\$7,883

The change in each component of General Education revenue is below.

GENED MODEL						
HF0439	FY24	FY25	24-25 Biennium	FY26	FY27	26-27 Biennium
Gened Aid Entitlement	8,142,042,972	8,436,190,746	16,578,233,718	8,515,189,063	8,649,197,848	17,164,386,911
Gened Levy	1,602,634,375	1,695,449,866	3,298,084,241	1,759,113,174	1,806,938,993	3,566,052,167
Total	9,744,677,347	10,131,640,613	19,876,317,960	10,274,302,238	10,456,136,841	20,730,439,078
February 2023 Forecast	FY24	FY25	24-25 Biennium	FY26	FY27	26-27 Biennium
Gened Aid Entitlement	7,772,501,104	7,683,702,633	15,456,203,737	7,610,537,135	7,571,667,190	15,182,204,325
Gened Levy	1,602,634,375	1,695,449,866	3,298,084,241	1,759,113,174	1,806,938,993	3,566,052,167
Total	9,375,135,479	9,379,152,499	18,754,287,978	9,369,650,309	9,378,606,183	18,748,256,493
Entitlement Change	FY24	FY25	24-25 Biennium	FY26	FY27	26-27 Biennium
Gened Aid Entitlement	369,541,868	752,488,114	1,122,029,982	904,651,928	1,077,530,658	1,982,182,586
Gened Levy	-	-	-	-	-	-
Total	369,541,868	752,488,114	1,122,029,982	904,651,928	1,077,530,658	1,982,182,586
Entitlement Change (in 1000s)	FY24	FY25	24-25 Biennium	FY26	FY27	26-27 Biennium
General Ed Model	369,542	752,488	1,122,030	904,652	1,077,531	1,982,183
Linked Categoricals Non-Model	4,503	11,309	15,812	14,099	17,055	31,154
Gened Non-Model	2,819	6,962	9,781	9,916	13,822	23,738

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Formula Increase Subtotal	376,864	770,759	1,147,623	928,667	1,108,408	2,037,075
100% current entitlements	2,376	5,401	1,173,216	7,069	9,052	16,121
90/10 entitlements	374,488	765,358	2,330,620	921,598	1,099,355	2,020,954
Appropriation Change						
100% Current	2,376	5,401	7,778	7,069	9,052	16,121
90% Current	337,039	688,823	1,025,862	829,439	989,420	1,818,859
10% Final		37,449	37,449	76,536	92,160	168,696
Total Appropriation	339,415	731,673	1,071,089	913,044	1,090,632	2,003,676

Long-Term Fiscal Considerations

Increasing the formula allowance based on CPI would ensure that funding keeps pace with inflation. However, the inflation section of the bill does not include a cap on growth. The variability of the CPI has the potential for significant long-term costs and impact on the state budget. The table below shows recent variability and trends in CPI Estimates used in the forecast.

	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
June 2021 (Levy)	2.91%	1.95%	2.07%	2.17%	2.20%	2.23%	2.27%	2.32%	2.35%
September 2021 (NOV21)	4.65%	2.02%	2.10%	2.22%	2.29%	2.31%	2.39%	2.44%	2.43%
June 2022 (Levy)	7.17%	5.66%	2.38%	1.66%	2.09%	2.18%	2.16%	2.16%	2.20%
September 2022 (NOV22)	7.17%	6.53%	2.91%	2.36%	2.19%	2.23%	2.22%	2.11%	2.11%
December 2022 (FEB23)	7.17%	6.18%	2.64%	1.93%	2.09%	2.17%	2.17%	2.06%	2.06%

The Inflation section of the bill does not consider the impacts of a depression on the inflation increase when there is negative CPI. The potential for a depression is slim, but if there were periods where the CPI was negative, the language in the bill would cause a decrease in the formula allowance. A technical correction is advised to ensure that if there is negative CPI, the formula allowance would remain flat or not decrease.

Local Fiscal Impact

This bill increases funding to local school districts.

References/Sources

Agency Contact: Becky Wochnick, 651-582-8781

Agency Fiscal Note Coordinator Signature: Melissa Stirn

Phone: 651-582-8690

Date: 3/1/2023 7:41:18 AM

Email: melissa.stirn@state.mn.us