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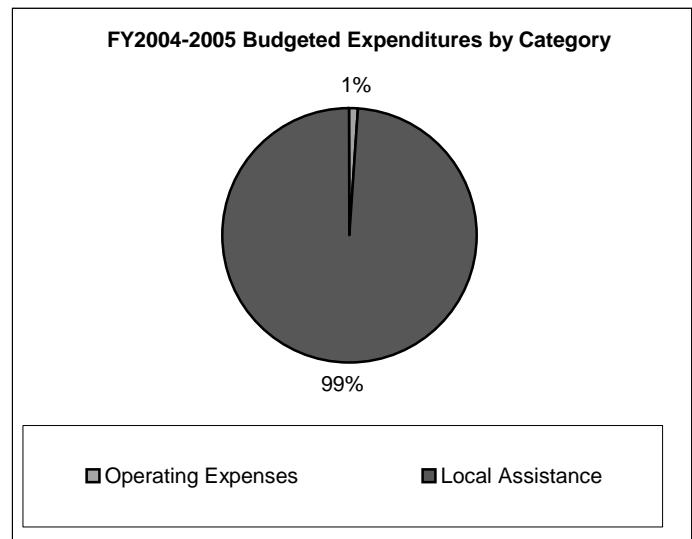
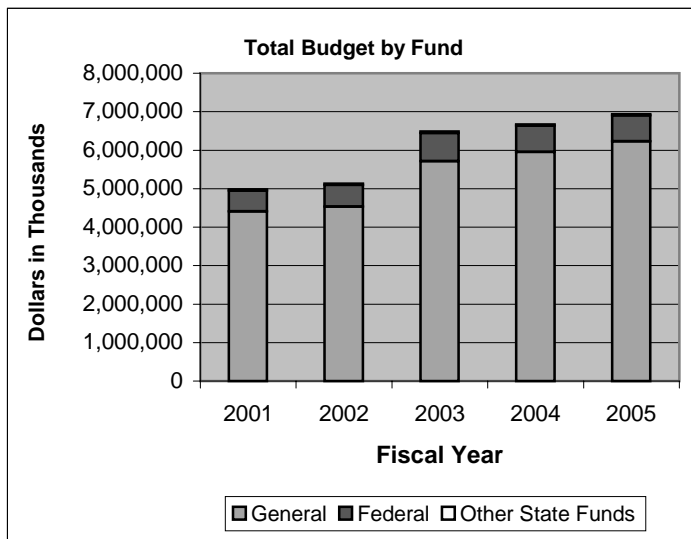
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DEPARTMENT OF EDUCATION

Budget in Brief

FY 2004-05 Expenditures (\$000s)

	General Fund	Other Funds	Total
2003 Funding Level	11,393,228	1,427,156	12,820,384
Biennial Appropriations	2,000	0	2,000
February Forecast Adjustment	-78,670	0	-78,670
November Forecast Adjustment	105,868	0	105,868
One-Time Appropriations	-35,000	0	-35,000
Program/Agency Sunset	-12,060	-6,600	-18,660
Statutory Adjustment	1,382,181	0	1,382,181
Adjusted Base Funding	12,757,547	1,420,556	14,178,103
Change Items			
Agency Budget Reductions	-8,348	0	-8,348
General Education			
Changes To General Education	-59,584	0	-59,584
Percentages For Aid Payments	-183,173	0	-183,173
Property Tax Shift	-173,602	0	-173,602
Other General Programs			
Eliminate Richfield Airport Aid	-2,601	0	-2,601
Nonpublic Pupil Programs			
Eliminate Impact Of \$415 Roll-In	-2,690	0	-2,690
Charter Schools			
Eliminate Charter School Integration	-92	0	-92
Reduce Charter School Lease Aid	-1,348	0	-1,348
Desegregation Programs			
Change Integration Revenue	-290	0	-290
Elim Teachers Of Color/Minority Fellow	-2,000	0	-2,000
Accountability & Reform			
School Evaluation Services Project	500	0	500
Prgs For Special Populations			
Eliminate Reading Competency Program	-200	0	-200
Reduce Adv Placement/International Bacc.	-1,100	0	-1,100
Reduce Youthworks Appropriation	-1,576	0	-1,576
Special Programs			
Special Education & Excess Cost Changes	-47,587	0	-47,587
Facilities & Technology			
Reduce Alt Facilities/Health & Safety	-17,386	0	-17,386
Nutrition Programs			
School Breakfast Consolidation	-271	0	-271
Libraries			
Reduce Basic Library Support Aid	-183	0	-183
Child Care Programs			
Change Child Care Assistance Funding	-17,573	0	-17,573
Eliminate At-Home Infant Care	-4,000	0	-4,000
Early Childhood & Family			
Early Childhood Family Ed/Sch Readiness	-11,828	0	-11,828
Eliminate Way To Grow	-950	0	-950
Prevention			
Community Education Changes	-1,680	0	-1,680
Eliminate After School Enrichment Aid	-11,020	0	-11,020
Eliminate Family Collaboratives Funding	-370	0	-370
Eliminate Parenting Time Centers Aid	-400	0	-400
Eliminate Violence Prevention Funding	-2,900	0	-2,900
Reduce Children'S Trust Fund	-1,750	0	-1,750
Self-suff & Lifelong Learning			
Adult Basic Education/Adult Graduation	-10,143	0	-10,143
Eliminate Adult Basic Education Audits	-245	0	-245
Eliminate Lead Abatement Aid	-200	0	-200
Reduce Economic Opportunity Grants	-9,028	0	-9,028
Governor's Recommendations	12,183,929	1,420,556	13,604,485



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
General	4,403,836	4,528,112	5,708,998	5,955,024	6,228,627	12,183,651
State Government Special Revenue	96	101	96	96	96	192
Trunk Highway	21	0	0	0	0	0
Federal Tanf	1,811	3,015	4,684	0	0	0
Open Appropriations						
Endowment School	24,053	21,368	19,282	19,634	19,986	39,620
Statutory Appropriations						
General	243	158	140	139	139	278
State Government Special Revenue	302	0	0	0	0	0
Special Revenue	6,333	13,312	14,752	11,290	11,290	22,580
Federal	544,697	566,284	733,665	682,110	674,352	1,356,462
Miscellaneous Agency	632	723	850	777	777	1,554
Gift	1,013	1,455	276	74	74	148
Total	4,983,037	5,134,528	6,482,743	6,669,144	6,935,341	13,604,485

Expenditures by Category	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Operating Expenses	70,358	66,615	89,335	76,557	71,456	148,013
Payments To Individuals	2,762	2,734	2,673	2,647	2,647	5,294
Local Assistance	4,909,324	5,064,533	6,390,035	6,589,240	6,860,538	13,449,778
Other Financial Transactions	593	646	700	700	700	1,400
Total	4,983,037	5,134,528	6,482,743	6,669,144	6,935,341	13,604,485

DEPARTMENT OF EDUCATION

Fiscal Report

<i>Dollars in Thousands</i>						
Expenditures by Program	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
General Education	3,296,451	3,430,409	4,668,968	4,833,163	5,123,323	9,956,486
Other General Programs	7,173	6,819	3,802	3,508	3,929	7,437
Nonpublic Pupil Programs	31,909	31,864	36,252	37,205	37,607	74,812
Charter Schools	18,207	20,102	19,555	23,790	27,789	51,579
Desegregation Programs	55,259	64,240	53,011	68,159	68,585	136,744
American Indian Programs	3,588	5,363	5,783	6,524	6,657	13,181
Accountability & Reform	30,619	31,929	66,175	65,490	63,490	128,980
Prgs For Special Populations	117,888	115,711	179,172	173,554	173,500	347,054
Special Programs	662,773	707,882	692,681	770,916	777,921	1,548,837
Facilities & Technology	64,620	61,393	60,831	70,353	53,937	124,290
Nutrition Programs	155,366	166,058	168,405	168,533	169,181	337,714
Libraries	14,546	12,246	14,433	14,632	14,836	29,468
Discontinued Programs (K-12)	108,879	48,206	21,015	0	0	0
Child Care Programs	189,698	212,576	252,427	227,229	222,713	449,942
Early Childhood & Family Prevention	60,314	57,645	56,539	57,556	48,501	106,057
	37,585	39,309	32,090	20,921	18,442	39,363
Self-Suff & Lifelong Learning	65,582	62,918	72,861	60,398	59,818	120,216
Discontinued Programs (Ec)	1,399	200	401	0	0	0
Agency	61,181	59,658	78,342	67,213	65,112	132,325
Total	4,983,037	5,134,528	6,482,743	6,669,144	6,935,341	13,604,485

Revenue by Type and Fund**Non Dedicated**

General	2	1,638	1,707	2,017	2,017	4,034
Cambridge Deposit Fund	1,630	0	0	0	0	0
Subtotal Non Dedicated	1,632	1,638	1,707	2,017	2,017	4,034

Dedicated

General	256	143	139	139	139	278
State Government Special Revenue	0	5	0	0	0	0
Special Revenue	8,362	12,553	11,757	10,519	10,520	21,039
Federal	546,887	563,482	733,349	682,110	674,352	1,356,462
Maximum Effort School Loan	1,060	940	940	940	940	1,880
Miscellaneous Agency	643	730	777	777	777	1,554
Gift	1,399	518	42	74	74	148
Subtotal Dedicated	558,607	578,371	747,004	694,559	686,802	1,381,361
Total Revenue	560,239	580,009	748,711	696,576	688,819	1,385,395

Full-Time Equivalents (FTE)	543.6	518.7	511.0	509.7	505.7	
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DEPARTMENT OF EDUCATION

Program: GENERAL EDUCATION

Change Item: CHANGES TO GENERAL EDUCATION

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact				
1 Eliminate Learning Year Pupil Units	(\$58,483)	(\$69,190)	(\$69,060)	(\$69,183)
2 Five Year Limit on LEP Funding	(\$3,855)	(\$7,480)	(\$8,460)	(\$8,896)
3a Delete \$415 Impact Compensatory	(\$20,435)	(\$24,989)	(\$24,087)	(\$23,971)
3b Delete \$415 Impact Sparsity	(\$1,179)	(\$1,448)	(\$1,490)	(\$1,538)
3c Delete \$415 Impact Transp. Sparsity	(\$4,468)	(\$5,350)	(\$5,308)	(\$5,265)
3d Delete \$415 Impact PSEO	(\$1,866)	(\$1,878)	(\$1,910)	(\$1,958)
4 Eliminate Training & Experience Revenue	(\$14,262)	(\$11,550)	(\$6,683)	(\$3,301)
5 Hold Harmless Gen. Ed. Revenue/PU	\$89,407	\$53,404	\$37,282	\$31,212
6 Change Equity Revenue from Aid to Levy	0	(\$14,597)	(\$18,811)	(\$20,401)
7 First Tier-Referendum Equalization	0	\$38,635	\$56,461	\$56,018
Total Appropriation Basis	(\$15,141)	(\$44,443)	(\$42,066)	(\$47,283)
Aid Entitlement Basis				
1 Eliminate Learning Year Pupil Units	(\$70,461)	(\$68,930)	(\$69,087)	(\$69,203)
2 Five Year Limit on LEP Funding	(\$4,644)	(\$8,061)	(\$8,542)	(\$8,968)
3a Delete \$415 Impact Compensatory	(\$24,621)	(\$25,064)	(\$23,887)	(\$23,988)
3b Delete \$415 Impact Sparsity	(\$1,420)	(\$1,454)	(\$1,497)	(\$1,546)
3c Delete \$415 Impact Transp. Sparsity	(\$5,383)	(\$5,343)	(\$5,301)	(\$5,258)
3d Delete \$415 Impact PSEO	(\$1,866)	(\$1,878)	(\$1,910)	(\$1,958)
4 Eliminate Training & Experience Revenue	(\$17,183)	(\$10,396)	(\$5,922)	(\$2,764)
5 Hold Harmless Gen. Ed. Revenue/PU	\$107,719	\$42,279	\$36,258	\$30,179
6 Change Equity Revenue from Aid to Levy	0	(\$17,587)	(\$19,062)	(\$20,675)
7 First Tier-Referendum Equalization	0	\$46,548	\$58,491	\$55,511
Total Aid Entitlement	(\$17,859)	(\$49,886)	(\$40,459)	(\$48,670)
Levy Impact				
1 Eliminate Learning Year Pupil Units	0	\$2,611	0	0
5 Hold Harmless Gen. Ed. Revenue/PU	0	\$64,449	\$69,963	\$75,455
6 Change Equity Revenue from Aid to Levy	0	\$17,587	\$19,062	\$20,675
7 First Tier-Referendum Equalization	0	(\$46,169)	(\$58,112)	(\$55,132)
Total Levy Impact	0	\$38,478	\$30,913	\$40,998
Total District/Non-District Revenue	(\$17,859)	(\$11,408)	(\$9,546)	(\$7,672)

DEPARTMENT OF EDUCATION

Program: GENERAL EDUCATION

Change Item: CHANGES TO GENERAL EDUCATION

Key Measures

The table below shows school district general operating resources for fiscal years 2002-2007 (operating resources includes other revenue sources like special education, but excludes non-general fund items like debt service and nutrition programs). This table takes into account the Governor's budget recommendations across all aid and levy programs that affect districts' general funds. Under the Governor's budget, district revenue per ADM will be \$7,799 in FY 2004 and \$7,900 in FY 2005.

**Total District General Fund Revenue
From State Aids and Property Taxes
Governor's Budget Recommendations**

Revenue per ADM

Fiscal Year	Operating Referendum Revenue	Other Revenue	Total Revenue Per ADM
2002	\$ 644	\$ 6,501	\$ 7,144
2003	348	7,284	7,632
2004	508	7,285	7,793
2005	609	7,273	7,882
2006	667	7,265	7,932
2007	736	7,272	8,008

The table below is a subset of the district general fund table above. This shows district revenue from the General Education program only. The slight annual declines shown in General Education revenue per ADM from sources outside of Referendum Revenue reflect the current law trends such as the phase out of T&E revenue and other reductions projected in the February Forecast, as well as the impact of the Governor's budget recommendations.

**General Education Revenue Only
From State Aids and Property Taxes
Governor's Budget Recommendations**

Revenue per ADM

Fiscal Year	Operating Referendum Revenue	Other Revenue	Total Revenue Per ADM
2002	\$ 644	\$ 5,416	\$ 6,060
2003	348	6,060	6,408
2004	508	6,041	6,550
2005	609	6,040	6,649
2006	667	6,021	6,688
2007	737	6,020	6,757

Statutory Changes: Amend MS 126C.05, subd. 15, to eliminate authority to count students as more than one ADM. Amend MS 124D.59, MS 124D.65 and MS 126C.10, subd. 4, to change LEP student accounting procedures and LEP funding formula. Amend MS 126C.10, subd. 3, to change the compensatory revenue formula. Repeal MS 126C.10, Subd. 5 (T&E revenue) and MS 126C.11 (T&E index). Amend MS 126C.10, subd. 7 & 8 to change the elementary and secondary sparsity formulas. Amend MS 126C.10, subd. 18, to change the transportation sparsity formula. Amend MS 124D.09, subd. 13, to change PSEO formula. Add new subdivisions to MS 126C.10 for equity levy and aid and transition revenue, levy and aid. Amend MS 126C.17, subdivisions 2 and 5, to change referendum equalization formulas and referendum cap.

DEPARTMENT OF EDUCATION

Change Item: PROPERTY TAX SHIFT

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact (Appropriation)	(\$157,541)	(\$16,061)	(\$23,897)	(\$18,333)
District/Non-District Revenue Change	0	0	0	0

Recommendation

The Governor recommends implementation of early recognition of property tax levies with a corresponding reduction to state aid payments beginning in FY 2004. Implementation of early recognition will result in decreased need for state appropriations of \$157,541,000 in FY 2004 and \$16,061,000 in FY 2005.

Background

This early recognition and corresponding aid reduction provides a savings in FY 2004 that will help to balance the state's budget and lessen appropriation reductions in education programs, while maintaining district revenues. Smaller savings in future years result from projected growth in district property tax levies.

There is currently an early recognition requirement in place for school districts. In each year, districts recognize specific levies identified in statute at 100% to match district revenue with district expenditure. In addition, districts recognize revenue equal to 31% of the referendum levy certified in 2000. For districts with early recognition amounts greater than cash receipts from property taxes, statute directs early recognition of the amount of general education aid that when added to tax receipts will equal the required early recognition amount. These provisions will remain in place and there will be no aid adjustments associated with the early levy recognition currently in place.

Under this recommendation, districts would recognize revenues equal to 36.6% of local property tax levies, including operating referendum levies, in the same year the levies are certified. State savings in FY 2004 are realized through reduction of state aid payments to school districts in an amount equal to the sum of 1) the difference between 36.6% of the Pay 2004 operating referendum levies and 31% of the Pay 2001 referendum levy and 2) 36.6% of other general and community service levies adjusted for levies currently recognized early. To lessen the negative effect on district cash flow, aid reduction would begin as late in the fiscal year as possible to coincide with district receipt of cash for spring tax collections.

This recommendation will create cash flow issues for schools as total cash receipts for the final year are reduced. While districts are authorized by M.S. 126C.52 to resolve cash shortfalls through short-term borrowing based on property taxes or state aids receivable, they will incur costs for issuance and interest. Districts may also earn less interest on investments as cash reserves are drawn down.

Relationship to Base Budget

Aid savings resulting from this change equal approximately \$161 per adjusted marginal cost pupil unit for FY 2004.

Statutory Changes: Amend M.S. 123B.75; required new language similar to 127A.44, repealed in First Special Session 2001.

DEPARTMENT OF EDUCATION

Program: OTHER GENERAL PROGRAMS

Change Item: GENERAL FUND LEVY CHANGES

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
Levy Impact				
Tree Growth Levy	0	(\$695)	(\$695)	(\$695)
Swimming Pool Levy	0	(\$400)	(\$420)	(\$440)
Staff Development Levy	0	(\$36)	(\$36)	(\$36)
Ice Arena Levy from 100% to 90% of cost	0	(\$90)	(\$96)	(\$102)
Reemployment Insurance from 100% to 90% of cost over \$10/PU	0	(\$4,854)	(\$4,854)	(\$4,854)
Judgment Levy from 100% to 90% of cost over \$10/PU	0	(\$173)	(\$173)	(\$173)
Learning Year impact on Safe Schools Levy	0	(\$842)	(\$424)	(\$425)
Total Levy Impact	0	(\$7,090)	(\$6,698)	(\$6,725)
Total District/Non-District Revenue	0	(\$7,090)	(\$6,698)	(\$6,725)

Recommendation

The Governor recommends the elimination of the following levies. The following levies provide additional revenue to a few districts that is not generally available to all school districts in the state:

- ⇒ The tree growth levy replaces payments school districts previously received from counties from the proceeds of the tree growth tax repealed in 2001. Forty-nine districts levy a total of \$695,000 under this provision.
- ⇒ The swimming pool levy, which is used to cover the net operating costs for swimming pools, is available only to certain districts located in counties along the Canadian border. Four districts are projected to levy a total of \$400,000 in Pay 2004 taxes.
- ⇒ The staff development levy allows districts with an ongoing outplacement program for teachers to levy up to \$8.15 per teacher for site-level staff development activities. Five districts are projected to levy a total of \$36,000 in Pay 2004 taxes.

In addition to eliminating the levies listed above, the Governor recommends reducing the levy authorities for the following programs:

- ⇒ Ice arena: districts that operate and maintain an ice arena are allowed to levy for the net operating costs – this somewhat parallels the inclusion of leases for ice time in the building lease levy for other districts. A change from 100% to 90% is consistent with the building lease levy change.
- ⇒ Unemployment insurance: reducing the levy from 100% of cost to 90% of the cost of unemployment claims exceeding \$10 per pupil unit will require districts to pay a portion of these claims from the general fund, thereby improving incentives to minimize the number and duration of layoffs.
- ⇒ Judgments: reducing the levy from 100% of cost to 90% of the cost of judgments exceeding \$10 per pupil unit will require districts to pay a portion of any judgments from the general fund, thereby improving incentives to avoid judgments.

Key Measures

The elimination of these levies will increase the equity of the availability of levy programs to districts in Minnesota.

Statutory Change: The following Minnesota Statutes would be impacted: Ice Arena Levy - 126C.45; Reemployment Levy - 126C.43, Subd. 2; Judgment Levy - 126C.43, Subd. 3 and 126C.47, Tree Growth Levy – 126C.445; Swimming Pool Levy - 126C.455; Staff Development Levy - 122A.62.

DEPARTMENT OF EDUCATION**Program: PRGS FOR SPECIAL POPULATIONS**

Change Item: REDUCE YOUTHWORKS APPROPRIATION

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact (Appropriation)	(\$788)	(\$788)	(\$788)	(\$788)
District/Non-District Revenue Change	(\$788)	(\$788)	(\$788)	(\$788)

Recommendation

The Governor recommends reducing funding by \$788,000 beginning in FY 2004. This reduction would leave an annual appropriation of \$1.0 million per year in FY 2004 and FY 2005.

Background

The Minnesota Youthworks program was created in 1994 to provide opportunities for youth to earn living stipends and future education funds in return for providing service to their communities. Minnesota Youthworks programs parallel federally supported AmeriCorps service programs in both their participants and goals. Responsibility for the operation of Youthworks and AmeriCorps programs had resided with the Governor-appointed Minnesota Commission on National and Community Service. Following a change in law from the 2002 Legislature, this commission has reconfigured as a nonprofit corporation, ServeMinnesota!, and this non-profit can accept both public funds and private contributions.

Relationship to Base Budget

The proposed reductions are 44.1% of the base budget.

Key Measures

If ServeMinnesota! is unable to privately raise funding, it is anticipated that this proposal may cause a reduction in funds available through grants to Youthworks recipients, most likely reducing grant awards on a proration basis since award decisions are generally made for multiple years and the benefits per participant are stipulated in statute. If ServeMinnesota! determines that the reduced appropriation necessitates closing one or more of the existing Youthworks programs, special arrangements would be necessary to address issues of participants who do not complete their terms of service and, therefore, do not qualify for post-service education awards.

Statutory Change: Not Applicable

DEPARTMENT OF EDUCATION**Program: CHILD CARE PROGRAMS****Change Item: ELIMINATE AT-HOME INFANT CARE**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact				
Expenditures	(\$2,000)	(\$2,000)	(\$2,000)	(\$2,000)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Total Appropriation Basis	(\$2,000)	(\$2,000)	(\$2,000)	(\$2,000)

Recommendation

The Governor recommends eliminating the At-Home Infant Care Program (AHIC). This program allows families to receive a subsidy in lieu of child care assistance for up to twelve months while they stay home to care for an infant up to one year of age. Elimination of AHIC is consistent with the Governor's proposal to change the work requirement exemption for MFIP participants with an infant. AHIC also is very administratively burdensome for counties and the state. The proposed reduction is \$2 million per year.

Background

The At-Home Infant Care Program (AHIC) allows families to receive a subsidy in lieu of child care assistance while they stay home to care for an infant. The program began in July 1998. Up to seven percent of the annual appropriation for the Basic Sliding Fee Child Care Assistance Program may be set aside to fund AHIC. Expenditures are projected to be \$2 million in SFY03.

Creation of AHIC was influenced by changes to the Minnesota Family Investment Program (MFIP) that allowed a parent receiving MFIP to stay at home for up to one year with an infant under the age of twelve months. AHIC was created, in part, to give a similar opportunity to low-income families who were not receiving MFIP but who needed some financial assistance so they could stop working temporarily to stay home with an infant. The Governor now proposes to limit the MFIP work exemption for families with infants under the age of three months. Eliminating AHIC would promote consistency between these proposals.

AHIC also is very administratively burdensome for counties and the state. AHIC serves a small number of families in each county for short periods of time. Funds for AHIC must be accounted for separately from other child care assistance funds. AHIC also is subject to rules that are very different from those applicable to the Child Care Assistance Program. Consequently, it has been difficult for counties and the state to develop efficient methods for administering AHIC cases.

Relationship to Base Budget

This recommendation reduces the appropriation for the basic sliding fee childcare assistance program. Current law funding for basic sliding fee child care is \$48.5 million.

Statutory Change: Amend M.S. 119B.011, Subd. 6 and 15 and M.S. 119B.09, Subd. 7. Repeal M.S. 119B.061.

DEPARTMENT OF EDUCATION**Program: PREVENTION****Change Item: ELIMINATE VIOLENCE PREVENTION FUNDING**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact (Appropriation)	(\$1,450)	(\$1,450)	(\$1,450)	(\$1,450)
District/Non-District Revenue Change	(\$1,450)	(\$1,450)	(\$1,450)	(\$1,450)

Recommendation

The Governor recommends elimination of this program. The proposed reductions are \$1,450,000 in FY 2004 and \$1,450,000 in FY 2005. The Governor included the majority of the funding for the FY 2003 program year in the unallotments under M.S. 16A.152, Subd.4 eliminating the need for the FY 2003 final payment. The reduction in FY 2004 includes the \$246,000 final payment for FY 2003.

Background

This program provides funding to integrate violence prevention education funding into existing K-12 curricula. The funding is distributed to school districts based on resident student counts from the previous school year. In addition to Violence Prevention funding, all school districts receive an enrollment-based allocation of federal Safe and Drug-Free Schools funding equal to approximately \$4 per student. The federal program, which would remain in place, is focused on violence and drug abuse prevention, early intervention, rehabilitation referral, and education. School districts can also use the safe schools levy to fund these activities. The safe school levy was increased from \$11 to \$30 per pupil unit beginning in FY 2004.

The elimination of the Violence Prevention program would result in an annual reduction of approximately \$1.50 per pupil to participating school districts.

Key Measures

Due to increased funding enacted in 2002 through the safe schools levy, this reduction should not significantly change measurable outcomes.

Statutory Change: Repeal M.S. 120B.23.