

CABINET AGENCIES

DEPARTMENT OF EDUCATION

OTHER NON CABINET AGENCIES

MINN STATE ACADEMIES

PERPICH CENTER FOR ARTS EDUCATION

	PAGE
Transmittal Letter	1
Agency Overview	3
Change Summary	4
Change Items	
Program Change Items	
General Education	
General Education Funding Changes	6
Other General Education Prgs	
Change Levy Year for Abatement Aid	15
Administrative District Levy	16
Allocation of Transportation Costs	17
Inflate/Delink Programs	20
Education Excellence	
Get Ready, Get Credit Program	21
Neutralize Change in Pupil Accounting	24
Career & Technical Education Grant & Levy	25
Scholarship Tax Credit	27
Equal Access to On-Line Learning	28
Staff Development Program & Reserved Revenue	29
Special Education	
Special Education Funding Changes	31
Facilities & Technology	
Facilities Funding Changes	34
Equity in Telecommunications Access in MN Schools	36
Library Programs	
Electronic Library of MN – Statewide Database Licensing	38
Early Childhood Family Support	
Early Childhood Health & Development Screening Modifications	39
School Readiness Program Changes	41
Self Sufficiency Lifelong Lrng	
Intensive English Instruction for New Adult Refugees	42
Reallocation of Capped ABE Funds	43
Agency Change Items	
Administrative Reduction	44
Grant Reduction	45
Statewide Assessments: Develop Interactive Science Test	46
Alternative Teacher Preparation Program/Licensing Program	47
Value-Added Index Assessment Model	49
Rulemaking Authority for Board of School Administrators	51
Reimbursement of BOSA Teacher Substitutes	53
Replace Basic Skills Test – Grade 8 with MCA II	54

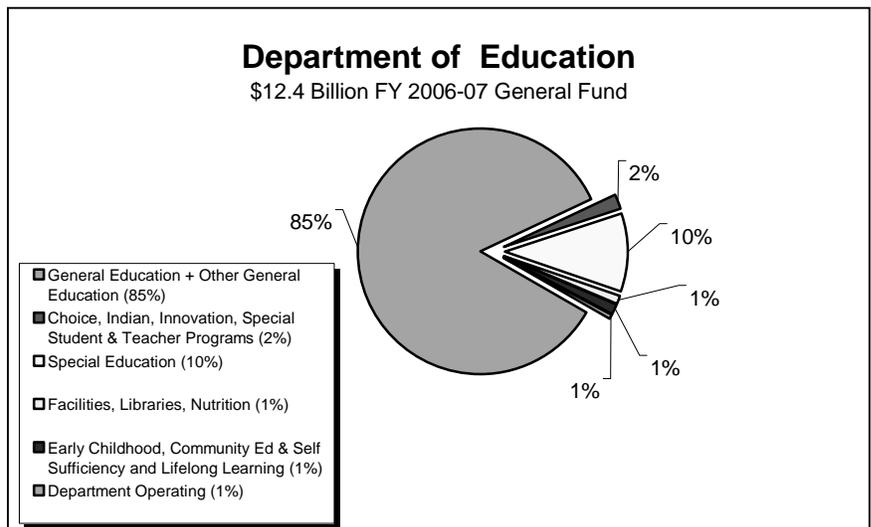
January 25, 2005

On behalf of Governor Tim Pawlenty, I am pleased to submit the education budget for FY 2006-07. This budget consists of \$12.380 billion from the state's General Fund, a 3.1% increase from FY 2006-07 forecast base, including \$67.1 million from the state's General Fund for the department's operating budget. The department also administers \$1.2 billion in federal funds and \$84.6 million from other funds biennially.

The state of education in Minnesota continues to be positive. Minnesota students have shown significant student achievement gains in math and held steady in reading. Minnesota's 8th graders posted the top scores in the nation on the 2003 NAEP test, and Minnesota students were ranked first on the 2003 ACT assessment. Minnesotans should be proud that our students continue to outperform students from other states.

And, in just the past two years, the Governor, Department of Education, and Legislature have achieved some significant accomplishments in education:

- Repealed the top-down, process heavy Profile of Learning in favor of rigorous, grade-specific academic standards in math, language arts, science, social studies and arts. Recently, the Fordham Foundation gave Minnesota a "B" on its language arts standards (up from a "D" under the Profile of Learning) and called both the language arts and math standards "greatly improved."



Additionally, *Education Week* noted that Minnesota earned additional recognition for adopting "clear and specific standards in elementary, middle, and high school for English, mathematics, and science.... and earned additional points because it has adopted clear and specific standards in social studies in both middle and high schools as well";¹

- Increased student achievement gains among minority students under *No Child Left Behind*;
- Developed early learning standards for pre-school programs which received an "A" from the Center for the Improvement of Early Reading Achievement (CIERA);
- Developed school report cards that provide a wealth of information to parents and the public, including student demographic information, enrollment, student achievement data, school safety information, academic opportunities, school staff characteristics, and a "Report to Taxpayers" regarding the school's and district's revenues and expenditures. The report card also features a star rating system so that parents and the public have general information about the school's academic performance in reading and math. The report card also grants star ratings for schools with school safety policies and programs, for student participation, and for advanced academic opportunities. The report cards are easily accessible on the Department's web site at www.education.state.mn.us;

¹ January 2005. Quality Counts, Education Week.

- Initiated the next generation of performance pay for teachers. The performance pay program, called the Teacher Advancement Program, establishes the following: (a) career ladders for teachers to become master or mentor teachers; (b) performance pay linked to student achievement that is reflected in the teacher's annual bonus; (c) instructionally-based accountability and ongoing teacher evaluations that are included in the teacher's annual bonus; and (d) professional development for teachers that is integrated into the school day and focused on student achievement and instruction;
- Started a pilot mentor program for teachers in hard-to-serve areas and hard-to-fill subject areas. We matched career teachers with new teachers along a rigorous program for teacher growth and development. The program currently is up and running in NW Minnesota, SW Minnesota, and in some first-ring suburban school districts;
- Started a teacher recruitment web site, which will assist all school districts and charter schools with hiring teachers at their schools and recruiting teachers to fill hard-to-fill subject areas such as math, science, special education, and world languages. The school districts and charter schools enter job postings and current and potential teachers enter their resume and relevant employee information;
- Implemented a new on-line learning program that will provide more choice options to parents;

The Pawlenty administration will continue to set a course in education over the next two years that is positive, promotes higher student achievement, hold schools accountable, protects and enhances core services, implements innovations, and provides better services to parents, educators, students, and taxpayers. In order to do so, we need to push for greater accountability and innovation in our schools and provide the resources they need to accomplish their goals.

In order to address needs and push for greater accountability and innovation, the Governor has proposed the following accountability and innovation measures.

- Reforming our education finances to simplify a complex system and provide more accountability for the money that is spent;
- Providing funds for alternative teacher compensation and moving school districts to a 21st Century pay schedule for teachers;
- Providing an increase on the formula of 2% each year;
- Moving forward on reinvesting in our high schools by enhancing gifted education programs, implementing a system to ensure students are ready for post-secondary education, and providing college credit for successful completion of general education courses in the high school setting;
- Establishing local control options on education funding and allowing school boards, with appropriate protections in the system for taxpayers, to increase funding for localized needs.
- Expand opportunities and provide more funding under the current online learning program.

In conclusion, Governor Pawlenty's education agenda and budget presented to the 2005 Legislature and Minnesotans is one that places a priority on protecting and enhancing resources to the classroom; providing resources to implement performance pay for teachers and move to salary schedules that reflect 21st Century practices; reforming our education finance system; providing resources to enhance student achievement; reinvesting in our high schools; and bringing greater accountability to our public education system.

I look forward to working with the Legislature, education organizations, and the public as we work on our common goal: improving student achievement for all our students.

Sincerely,



Alice Seagren
Commissioner

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	5,822,276	6,120,579	6,120,579	6,120,579	12,241,158
Recommended	5,822,276	6,264,365	6,008,714	6,192,925	12,201,639
Change		143,786	(111,865)	72,346	(39,519)
% Biennial Change from 2004-05					1%
State Government Spec Revenue					
Current Appropriation	96	96	96	96	192
Recommended	96	96	0	0	0
Change		0	(96)	(96)	(192)
% Biennial Change from 2004-05					-100%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	5,697,377	6,166,252	6,008,714	6,192,925	12,201,639
Open Appropriations					
Endowment School	15,953	16,182	16,519	16,857	33,376
Statutory Appropriations					
General	23	0	0	0	0
Special Revenue	9,538	10,344	9,078	8,905	17,983
Federal	555,757	594,260	589,369	585,131	1,174,500
Miscellaneous Agency	444	400	400	400	800
Gift	110	594	265	265	530
Total	6,279,202	6,788,032	6,624,345	6,804,483	13,428,828
<u>Expenditures by Category</u>					
Total Compensation	28,889	32,914	33,266	33,160	66,426
Other Operating Expenses	34,768	43,852	40,290	40,105	80,395
Payments To Individuals	2,589	2,623	2,623	2,623	5,246
Local Assistance	6,212,512	6,708,213	6,547,743	6,728,172	13,275,915
Other Financial Transactions	444	400	400	400	800
Transfers	0	30	23	23	46
Total	6,279,202	6,788,032	6,624,345	6,804,483	13,428,828
<u>Expenditures by Program</u>					
General Education	4,753,123	5,184,521	5,045,949	5,216,042	10,261,991
Other General Education Prgs	43,594	45,620	46,204	48,491	94,695
Choice Programs	84,415	98,372	106,550	115,883	222,433
Indian Programs	5,583	6,338	6,489	6,682	13,171
Innovation & Accountability	3,700	3,700	3,700	3,700	7,400
Spec Student & Teacher Prgs	201,844	182,047	183,798	182,874	366,672
Special Education	759,775	822,995	798,140	798,654	1,596,794
Facilities & Technology	61,791	58,269	55,252	53,379	108,631
Nutrition Programs	172,611	180,767	179,758	179,963	359,721
Library Programs	12,900	13,456	13,892	13,944	27,836
Early Childhood Family Support	53,914	49,345	47,489	48,284	95,773
Community Ed & Prevention	17,079	18,839	17,592	16,874	34,466
Self Sufficiency Lifelong Lrng	39,152	43,227	43,746	43,773	87,519
Discontinued/Transfer Programs	4,416	0	0	0	0
Department Of Education Agency	65,305	80,536	75,786	75,940	151,726
Total	6,279,202	6,788,032	6,624,345	6,804,483	13,428,828
Full-Time Equivalentents (FTE)	403.1	412.8	403.8	403.8	

DEPARTMENT OF EDUCATION

Change Summary

Dollars in Thousands

	FY2005	Governor's Recomm.		Biennium 2006-07
		FY2006	FY2007	
Fund: GENERAL				
FY 2005 Appropriations	6,120,579	6,120,579	6,120,579	12,241,158
Technical Adjustments				
Biennial Appropriations		500	0	500
Current Law Base Change		(582)	(908)	(1,490)
End-of-session Estimate		(16,156)	(45,784)	(61,940)
November Forecast Adjustment	143,786	9,923	25,357	35,280
Program/agency Sunset		(11,598)	(11,733)	(23,331)
Transfers Between Agencies		(124,179)	(132,185)	(256,364)
Subtotal - Forecast Base	6,264,365	5,978,487	5,955,326	11,933,813
Change Items				
AP/IB	0	1,222	1,222	2,444
Abatement Aid	0	(537)	(530)	(1,067)
Administrative Reduction	0	(1,225)	(1,225)	(2,450)
Alternative Teacher Preparation Program	0	0	500	500
Career & Technical Educ Grant & Levy	0	1,000	1,000	2,000
Compensatory Revenue-Hmong Refugees	0	1,574	348	1,922
Create New Discretionary Levy	0	0	12,898	12,898
Debt & Deferred Maintenance	0	0	2,383	2,383
Early Childhood Screening	0	323	752	1,075
Electronic Library of MN	0	639	691	1,330
General Education Compensatory Increase	0	4,782	11,470	16,252
General Education Contract Alternative	0	218	486	704
General Education Extended Time Increase	0	778	1,763	2,541
General Education Formula Increase	0	72,404	159,566	231,970
General Education PSEO Increase	0	384	799	1,183
General Education Shared Time Increase	0	61	136	197
General Education Sparsity Funding	0	313	2,413	2,726
Get Ready, Get Credit-CLEP	0	825	1,650	2,475
Get Ready, Get Credit-EPAS	0	829	829	1,658
Grant Reduction	0	(1,075)	(1,075)	(2,150)
Health & Safety Change	0	0	(2)	(2)
Integration Aid Change	0	0	65	65
Intensive English for Adult Refugees	0	1,000	1,000	2,000
Interactive Science Assessment	0	1,200	1,200	2,400
Maximum Effort Impact on Debt Service	0	0	(683)	(683)
Nonpublic Pupil Funding	0	90	213	303
Nonpublic Pupil Transportation Funding	0	400	834	1,234
On Line Learning	0	1,000	2,000	3,000
Performance & Professional Pay	0	10,000	53,406	63,406
Property Tax Shift	0	(72,325)	(28,606)	(100,931)
Reallocation of ABE Funds	0	127	123	250
Referendum Cap at 28%	0	0	1,657	1,657
Repeal Teacher Contract Deadline Penalty	0	82	18	100
Rulemaking for Brd of Schl Admin	0	20	0	20
Scholarship Tax Credit Administration	0	250	250	500
School Readiness Aid Reduction	0	(164)	(200)	(364)
School Readiness Program Changes	0	164	200	364
Shared Time Reimbursement Change	0	0	(3,028)	(3,028)
Special Education Aid	0	(334)	(407)	(741)
Special Education Excess Cost Reduction	0	0	(80)	(80)
Special Education Program Growth	0	0	2,030	2,030
TRA Reduction Change	0	0	8,565	8,565
Telecommunications Access	0	4,500	4,600	9,100
Training & Experience Levy Change	0	0	(5,519)	(5,519)
Transition Revenue Change	0	1,366	2,204	3,570
Tribal Contract School Funding	0	36	83	119
Value-added Index Assessment Model	0	300	1,600	1,900
Total Governor's Recommendations	6,264,365	6,008,714	6,192,925	12,201,639

DEPARTMENT OF EDUCATION

Change Summary

	<i>Dollars in Thousands</i>			Biennium 2006-07
	FY2005	Governor's Recomm. FY2006	FY2007	
<i>Fund: STATE GOVERNMENT SPEC REVENUE</i>				
FY 2005 Appropriations	96	96	96	192
Technical Adjustments				
Transfers Between Agencies		(96)	(96)	(192)
Subtotal - Forecast Base	96	0	0	0
Total Governor's Recommendations	96	0	0	0
<i>Fund: ENDOWMENT SCHOOL</i>				
Planned Open Spending	16,182	16,519	16,857	33,376
Total Governor's Recommendations	16,182	16,519	16,857	33,376
<i>Fund: SPECIAL REVENUE</i>				
Planned Statutory Spending	10,344	9,078	8,905	17,983
Total Governor's Recommendations	10,344	9,078	8,905	17,983
<i>Fund: FEDERAL</i>				
Planned Statutory Spending	594,260	589,369	585,131	1,174,500
Total Governor's Recommendations	594,260	589,369	585,131	1,174,500
<i>Fund: MISCELLANEOUS AGENCY</i>				
Planned Statutory Spending	400	400	400	800
Total Governor's Recommendations	400	400	400	800
<i>Fund: GIFT</i>				
Planned Statutory Spending	594	265	265	530
Total Governor's Recommendations	594	265	265	530
<u>Revenue Change Items</u>				
<i>Fund: MAXIMUM EFFORT SCHOOL LOAN</i>				
Change Items				
Maximum Effort Impact on State Debt Serv	0	0	(793)	(793)

DEPARTMENT OF EDUCATION

Program: GENERAL EDUCATION

Change Item: General Education Funding Changes

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
State General Fund Fiscal Impact (Appropriations)				
1 Basic Formula - Inflate 2% & 2%	\$72,404	\$159,566	\$173,459	\$171,573
2a Alternative Compensation – Basic	10,000	50,000	58,171	58,171
2b Alternative Compensation - Equalization		3,406	2,308	1,460
3 Pupil Accounting Changes / Separate Formulas for Declining Enroll. & Secondary Ed.	NA	NA	NA	NA
4 Adjust All Formulas for Pupil Accounting Changes	NA	NA	NA	NA
5 Eliminate Negative TRA Adjustment		8,565		
6a Discretionary Levy / Eliminate Misc.Levies		11,289	10,210	6,565
6b Discretionary Aid for Charter Schools		1,609	2,277	2,682
7 Training and Experience to Equalized Levy		(5,519)	(5,451)	(4,131)
8 Referendum Cap to 28% of Formula Allowance		1,657	2,112	226
9 Eliminate Learning & Devel. Reserve	NA	NA	NA	NA
10 Eliminate Jan. 15 Contract Deadline	82	18	82	18
11 Equity Revenue - New Formula	NA	NA	NA	NA
12 Sparsity/Transp. Sparsity – Update Formula	NA	NA	NA	NA
13a Delink & Inflate Compensatory	4,782	11,470	12,767	12,750
13b Inflate Extended Time	778	1,763	2,727	2,939
13c Delink & Inflate PSEO	384	799	793	780
13d Inflate Shared Time	61	136	149	149
13e Inflate Contract Alternative	218	486	536	521
13f Delink & Inflate Sparsity & Transp.Sparsity	313	2,413	2,957	3,070
14 Transition Revenue - Pre-K Programs	1,366	301		
15 Transition Revenue - New Formula Incl. Pre - K		1,903	1,669	4,615
16 Charter School Extended Time - Transportation	NA	NA	NA	NA
17 Shared Time Aid to Reimbursement		(3,028)		
18 Compensatory – Hmong Refugees	1,574	348		
19 Repeal Contract Penalty	82	18	82	18
20 Property Tax Early Recognition	(72,325)	(28,606)	(13,700)	(4,655)
Total Appropriation Basis	19,637	218,576	251,066	256,733
Aid Entitlement Basis				
1 Basic Formula - Inflate 2% & 2%	88,405	175,293	173,053	171,247
2a Alternative Compensation – Basic	13,027	58,171	58,171	58,171
2b Alternative Compensation - Equalized Levy		3,406	2,308	1,460
3 Pupil Accounting Changes / Separate Formulas for Declining Enroll. & Secondary Ed.	NA	NA	NA	NA
4 Categoricals - Adj. for Pupil Accounting Changes	NA	NA	NA	NA
5 Eliminate Negative TRA Adjustment	NA	NA	NA	NA
6a Discretionary Levy / Eliminate Misc.Levies		13,856	9,380	5,926
6b Discretionary Aid for Charter Schools		1,964	2,346	2,757
7 Training and Experience to Equalized Levy		(6,771)	(5,151)	(3,900)
8 Referendum Cap to 28% of Formula Allowance		2,023	2,131	(193)
9 Eliminate Learning & Devel. Reserve	NA	NA	NA	NA

DEPARTMENT OF EDUCATION

Program: GENERAL EDUCATION

Change Item: General Education Funding Changes

Aid Entitlement Change (continued)	FY 2006	FY 2007	FY 2008	FY 2009
10 Eliminate Jan. 15 Contract Deadline	\$100		\$100	
11 Equity Revenue - New Formula	NA	NA	NA	NA
12 Sparsity/Transp. Sparsity - Update Formula	NA	NA	NA	NA
13a Delink & Inflate Compensatory	5,838	12,715	12,778	12,744
13b Inflate Extended Time	949	1,943	2,901	2,947
13c Delink & Inflate PSEO	384	799	793	780
13d Inflate Shared Time	74	150	149	149
13e Inflate Contract Alternative	265	536	536	518
13f Delink & Inflate Sparsity & Transp.Sparsity	381	2,863	2,977	3,092
14 Transition Revenue - Pre-K Programs	1,667			
15 Transition Revenue - New Formula Incl. Pre - K		2,323	1,524	5,298
16 Charter School Extended Time - Transportation	NA	NA	NA	NA
17 Shared Time Aid to Reimbursement	NA	NA	NA	NA
18 Compensatory - Hmong Refugees	1,922			
19 Property Tax Early Recognition	NA	NA	NA	NA
Total Aid Entitlement	113,012	269,271	263,996	260,996
Property Tax Levy Impact				
2b Alternative Compensation - Equalized Levy		23,294	24,136	24,704
4 Equity & Operating Capital Changes		(45)	(267)	(1,873)
6a Discretionary Levy		94,754	98,111	100,295
6a Repeal Miscellaneous Levies		(56,818)	(54,137)	(54,449)
7 Training and Experience to Equalized Levy		6,820	5,190	3,933
8 Referendum Cap to 28% of Formula Allowance		42,120	63,090	66,316
14 Transition Revenue - Pre-K Programs	4,702			
15 Transition Revenue - New Formula Incl. Pre - K		15,440	15,859	39,705
Total Levy Impact	4,702	125,565	151,982	178,631
Total District Revenue	\$117,714	\$394,836	\$415,978	\$439,627

Recommendation

The Governor recommends changes to the general education program to increase the general education formula, fund alternative teacher compensation, increase local control over general education funding, eliminate unnecessary mandates, and make education funding more understandable and more fair.

The Governor recommends the following changes in the general education program:

1. Increase the basic formula allowance by 2% in FY 2006 and an additional 2% in FY 2007. Beginning in FY 2007, convert the basic formula allowance and other education funding formulas to allowances per pupil actually enrolled in the current year. Eliminate "marginal cost" pupil units and grade level pupil weightings, except the .5 weight for regular kindergarten, which reflects half-time funding. For FY 2006, the formula allowance will be increased by \$92 per adjusted marginal cost pupil unit (AMCPU) to \$4,693. The \$4,693 per AMCPU is equivalent to \$5,086 per pupil actually enrolled in the current year. For FY 2007 and later, the formula allowance will be increased by \$102 per pupil to \$5,188.
2. Beginning in FY 2006, provide funding for alternative compensation of teachers through the general education program. School districts and charter schools approved for funding will receive up to \$225 per student from state aids and property tax levies. For FY 2006 only, the basic alternative compensation aid will be \$225 per student and there is no levy. For FY 2007 and later, \$155 per student will be provided in basic alternative

DEPARTMENT OF EDUCATION

Program: GENERAL EDUCATION

Change Item: General Education Funding Changes

compensation aid, and participating school districts also will be eligible for a \$70 per student equalized levy. Participating charter schools will receive basic alternative compensation aid equal to the state average amount of aid and levy received by participating school districts. Basic alternative compensation entitlements will be limited to \$16.7 million for FY 2006 and \$61.9 million for FY 2007 and later, including \$3.7 million per year rolled into the general education program from the existing alternative compensation aid program. Plans must be submitted to the Department of Education, and must be approved by the Commissioner for the district or charter school to qualify for funding.

3. Beginning in FY 2007, provide funding for the added costs of declining enrollment and secondary education through separate formulas. Declining enrollment funding will equal \$1,297 times the decline in pupils from the previous fiscal year and secondary education funding will equal \$936 times the number of pupils in grades 7 – 12.
4. Beginning in FY 2007, adjust per pupil allowances and equalizing factors for all education funding formulas to neutralize the effect of the change in pupil unit calculations.
5. Beginning in FY 2007, eliminate the negative adjustment to general education aid for changes in employer contribution rates to pension funds.
6. Beginning in FY 2007, replace several small categorical levies with an equalized local discretionary levy of \$150 per pupil, with a guaranteed minimum increase of \$76 per pupil over the district's pay 2005 levy for the repealed levy categories. Provide charter schools with an equivalent \$76 per pupil increase in state aid. For districts receiving an increase exceeding \$76 per pupil, the increase over \$76 per pupil will be subject to a reverse referendum.
7. Beginning in FY 2007, convert training and experience revenue to an equalized levy.
8. Beginning in FY 2007, increase the initial cap on voter-approved operating referendum revenue per pupil from 18.6% to 28% of the basic formula allowance and expand tier 2 referendum equalization to 28% of the basic formula allowance. For districts with referendum limits based on 1994 referendum authority, continue to provide an inflation adjustment based on the Consumer Price Index (CPI) for FY 2009 and later.
9. Beginning in FY 2007, eliminate the mandate to reserve a portion of basic revenue for learning and development.
10. Beginning in FY 2006, eliminate the January 15 contract deadline and penalty.
11. Beginning in FY 2007, allocate equity revenue using a uniform statewide formula that targets funding more directly to low revenue districts.
12. Beginning in FY 2007, update the transportation sparsity formula to reflect more current data.
13. Beginning in FY 2006, de-link funding for compensatory education, sparsity, transportation sparsity, and post-secondary enrollment options from the basic formula allowance. Provide a 2% increase for these programs for FY 2006 and an additional 2% increase for FY 2007.
14. Beginning in FY 2006, provide transition revenue for pre-kindergarten programs established before July 1, 2003 that received general education revenue for FY 2004, and clarify the department's authority to provide general education revenue for these programs for FY 2004 and earlier.
15. Beginning in FY 2007, replace the current transition revenue formula with a new formula to ensure that each district will receive at least the amount of general education revenue it would have received for fiscal year 2007 under the formulas recommended for fiscal year 2006, plus the amount of the district's levy limitations for taxes payable in 2005 for levies being rolled into the discretionary levy, plus \$199 per pupil. The guaranteed increase of \$199 per pupil includes the \$76 minimum increase from the conversion of miscellaneous categorical levies to discretionary revenue plus \$123, the state average per pupil increase generated by a 2% increase in basic, compensatory, sparsity, transportation sparsity, and extended time revenues.
16. Beginning in FY 2006, allocate the portion of charter school extended time revenue attributable to pupil transportation to the school district providing transportation, if the charter school elects to have the district provide transportation.
17. Beginning in FY 2007, adjust general education appropriations to reflect the current practice of paying 100% of shared time aid based on actual data as part of the final payment during the following fiscal year.

Background

Increase basic formula by 2% in FY 2006 and an additional 2% in FY 2007, and allocate funding based on actual current year pupil counts beginning in FY 2007.

For FY 2006, the formula allowance will equal \$4,693 per adjusted marginal cost pupil unit, a \$92 increase over current law. For FY 2007, the formula allowance will equal \$5,188 per adjusted pupil unit. Of the total increase for FY 2007, \$393 is attributable to the change in pupil unit calculations described below and the remaining \$102 provides an inflation adjustment. The 2% increase per year exceeds the projected rate of growth in the CPI for the period, which is estimated in the November forecast at 1.45% for FY 2006 and 1.58% for FY 2007.

Under current law, funding is allocated based on adjusted marginal cost pupil units (AMCPU). In addition to counting the full-time equivalent number of pupils enrolled in the district during the current year, districts receive additional pupil units to adjust funding for declining enrollment and for cost differences among grade levels. The practice of funding cost differentials by adjusting pupil counts creates confusion as to the number of pupils actually being served by a district, and makes it difficult to separate out the base funding being provided for all students, and the additional funding being provided for cost differentials, such as declining enrollment or secondary education. With multiple pupil counts being used for different purposes, it is often unclear whether funding and expenditure statistics are being reported as amounts per AMCPU or as amounts per actual current year pupil.

Converting the basic formula allowance and other education funding formulas to amounts per actual current year pupil, with separate adjustments for declining enrollment and added costs of secondary education, will contribute to public understanding of education funding while maintaining adjustments for necessary cost differences.

1. Beginning in FY 2006, provide funding for alternative teacher compensation through the general education program.

The Legislature enacted the State's first alternative teacher compensation program in 2001. Five school districts currently participate in the program. The Governor recommends replacing the current program with a new program – the next generation of alternative teacher compensation – called *Q Comp: Performance Pay for Quality Teaching*.

Under the new program, plans must be submitted to the Department of Education by school districts and charter schools will be approved by the state if the following criteria are met:

- ⇒ *Multiple Career Paths*: In recognition that individual teachers have different strengths and abilities, the program provides new opportunities for teachers to develop and use their skills. Those teachers who are highly skilled and have high levels of student performance and talents in teaching must have opportunities to move into master and mentor teaching positions and essentially help their peers increase their skills and abilities. These additional responsibilities are rewarded by additional compensation. This allows teachers to continue to progress and develop new career opportunities within the teaching profession.
- ⇒ *Instructionally-Based Accountability*: The performance pay system must involve a comprehensive personnel review system for teachers that utilizes input from a variety of sources. The review system must be based on scientifically-based education research. Peer reviewers, such as master and mentor teachers, along with principals, will evaluate each teacher's performance at several points in time during the school year. The evaluations must be one consideration for teacher bonuses.
- ⇒ *Professional Compensation*: Performance pay for teachers must introduce changes to the compensation system for participating schools in order to allow administrators some flexibility to reward teachers for high levels of student performance, and to offer competitive salaries for teachers, particularly in hard to staff subject areas or high need schools. The performance pay must "untie" compensation from the more traditional schedule that relies on years of service and education credits and use rigorous evaluations, school achievement gains, and student achievement gains for performance bonuses.

- ⇒ *New 21st Century Pay Schedule for Teachers:* Performance pay for teachers must abolish the age-old, lock-step salary schedule and implement a new, 21st-century based system that recognizes teachers as professionals.
- ⇒ *Ongoing Applied Professional Growth:* The program must utilize best practice research to create staff development options for teachers in schools. The staff development must also be integrated, collaborative, and provide for regular site-based and teacher-led professional growth activities.
- ⇒ *Alignment of State Staff Development Plan and Set Aside:* School districts and charter schools participating in the performance pay program must align their staff development plans and two percent set aside funds required by the State. Performance pay plans approved by the Department of Education under this program must include staff development opportunities that are integrated, collaborative, and provide for regular site-based and teacher-led professional growth activities.

There is a critical need to attract and retain the best talent in Minnesota's teaching profession. Quality, effective teachers are critical to assuring continued and improved academic excellence in our public schools. Over the next ten years, Minnesota will experience greater teacher shortages. National studies have indicated that about one-half of new teachers leave the profession during their first five years. It is critical for the State to address these teacher quality issues, including teacher compensation.

Salary increases for teachers today are based on an outdated model otherwise known as "steps and lanes." Salary increases are limited to the number of years of services or academic seat time and number of education credits beyond a bachelor's degree. It is not based on performance or additional responsibilities. The only greater career responsibilities for a teacher interested in advancing within the teaching profession is a one-way path out of the classroom and into administration. This system needs to change to reflect growing changes in education and the professional nature of the teaching profession.

The *Q Comp* program recommended by the Governor will provide an integrated solution to these challenges – changing the structure, recognizing talent, and providing greater professional opportunities for teachers in a collaborative environment.

2. Beginning in FY 2007, provide separate, transparent funding for added costs associated with declining enrollment and secondary education.

Under current law, school districts receive additional funding for declining enrollment through the allocation of additional "marginal cost" pupil units based on 23% of the district's decline in weighted pupil units from the previous year. For FY 2007 and later, districts will receive approximately the same level of additional funding for declining enrollment through a separate formula that clearly identifies the amount being allocated based on declining enrollment without distorting pupil counts. A district's declining enrollment funding will equal \$1,297 times the decline in enrollment between the previous year and the current year. This represents 25% of the basic formula for FY 2007. Declining enrollment revenue would be de-linked from the basic formula allowance, so that decisions about future funding differentials for declining enrollment will be independent of future decisions about the basic formula.

Under current law, school districts receive additional funding for secondary education through the allocation of additional pupil units based higher pupil unit weightings for students in grades 7 – 12. For FY 2007 and later, districts will receive approximately the same level of additional funding for secondary education through a separate formula that clearly identifies the additional amount being allocated based on secondary enrollment without distorting pupil counts. A district's secondary education funding will equal \$936 times the number of pupils in grades 7 – 12 in the current year. The additional revenue generated by secondary students under this formula equals 18% of the basic revenue for these students. Under the current weighted pupil system, secondary students generate 22.6% more than students in grades 4 – 6 (1.3 secondary weight / 1.06 grade 4 – 6 weight), and 16.6% more than students in grades 1 – 3 (1.3 secondary weight / 1.115 grade 1 – 3 weight). Secondary education revenue would be de-linked from the basic formula allowance, so that decisions about future funding differentials for secondary education will be independent of future decisions about the basic formula.

3. Beginning in FY 2007, eliminate the adjustment to general education aid for changes in employer contribution rates to pension funds.

Under current law, general education aid payments to school districts are adjusted based on the change in the district's FY 1997 employer contributions to the Teachers Retirement Association (TRA) and the Public Employees Retirement Association (PERA) as a result of changes made in employer contribution rates. On average this adjustment reduces district general education aid by \$60 per pupil; however, the adjustments vary significantly among districts. Because cities of the first class are not members of TRA, the adjustments for those districts are much smaller than for other districts. Districts that have experienced significant declining enrollment since 1997 tend to have large adjustments, because the calculations have not been adjusted for changes in enrollment or salaries since 1997.

To make general education funding more transparent and understandable to the public, the pension adjustment to general education aid is eliminated beginning in FY 2007 and the basic formula is adjusted to offset the average impact of this change.

4. Beginning in FY 2007, replace several small categorical levies with a discretionary levy of \$150 per pupil.

Under current law, there are a variety of small categorical levies for various general fund purposes, including reemployment insurance, safe schools, judgments, ice arenas, swimming pools, lost interest earnings, tree growth replacement, building leases, severance, and other miscellaneous purposes. Some of these levies are available to all districts, and others are available only to selected districts. To simplify education funding, improve fairness, increase local flexibility in the use of revenues, and provide districts with the option to raise additional local revenue, several of these small categorical levies will be replaced with a single discretionary levy of \$150 per pupil, beginning with taxes payable in 2006. In addition to the \$150 per pupil allowance, training and experience revenue will also be rolled into the discretionary levy calculations. Districts that levied more than the state average of \$74 per pupil for these purposes for taxes payable in 2005 will be guaranteed a minimum increase of \$76 per pupil. Charter schools will be provided equivalent funding of \$76 per pupil from state aid. Districts levying less than the state average of \$74 per pupil for taxes payable in 2005 will qualify for an increase of up to \$150 per pupil. For these districts, the increase exceeding \$76 per pupil will be subject to a reverse referendum.

5. Beginning in FY 2007, increase the standard operating referendum cap and second tier referendum equalization from 18.6% to 28% of the formula allowance.

Under current law, the standard referendum cap is based on 18.6% of the formula allowance, while districts with relatively high referendum allowances in 1994 have a higher cap, based on their 1994 referendum allowances. To increase local control and narrow the gap between the standard referendum cap and the grandfather cap, the standard referendum cap will be based on 28% of the formula allowance, beginning in FY 2007. For FY 2007, this will increase the standard referendum cap, prior to the inflationary adjustment, by \$488, from \$965 to \$1,453. To provide equity for low tax base districts, the limit for second tier referendum equalization will also be increased to 28% of the formula allowance. For districts remaining on the grandfather cap, the inflationary increase in the cap will continue to be based on the CPI for FY 2009 and later.

6. Beginning in FY 2007, eliminate the mandate to reserve a portion of basic revenue for learning and development.

Under current law, school districts are required to reserve 11.5% of the basic revenue generated by students in kindergarten through grade 3 and 6% of the basic revenue generated by students in grades 4 – 6 for elementary class size reduction. However, because the amount reserved for this purpose is small compared with the overall cost of elementary teacher salaries, and because class sizes are affected by numerous other variables, the reserve requirement has not been effective in consistently reducing class sizes. Elimination of this mandate will reduce accounting burdens on school districts and increase local flexibility.

7. Beginning in FY 2007, allocate equity revenue to all districts using a single statewide formula that targets funding more directly to low revenue districts.

Under current law, separate formulas are used to allocate equity revenue for the metro area and greater Minnesota. Funding consists of a flat \$13 per pupil unit for all districts below the regional 95th percentile of

referendum revenue per pupil unit, and a sliding scale providing additional revenue to districts with relatively low referendum allowances, with the maximum sliding scale allowance set at \$75 per pupil unit. Minneapolis, St. Paul, and Duluth are ineligible for equity revenue, and districts with no referendum revenue receive only the flat \$13 allowance. To simplify the formula and improve fairness, a single statewide formula will be implemented beginning in FY 2007. All districts with referendum revenue below 28% of the formula allowance will qualify for revenue, including Minneapolis, St. Paul, and Duluth, and districts with no referendum revenue. To target funding to low revenue districts, the flat \$13 allowance will be eliminated and all of the revenue will be allocated on a sliding scale, with a maximum allowance of \$101 per pupil.

8. Beginning in FY 2007, update the transportation sparsity formula to reflect more current data.

Under current law, transportation sparsity revenue is computed using a formula developed in 1995 based on statistical analysis of the relationship between population density and transportation cost per pupil. Over the past ten years, the relationship between population density and transportation cost per pupil has evolved, with average costs growing more rapidly in sparsely populated rural areas than in more heavily populated urban and suburban areas. Beginning in FY 2007, the transportation sparsity formula will be updated based on statistical analysis completed using FY 2003 data.

9. De-link categorical formulas from the formula allowance and provide a 2% annual increase in previously linked formulas.

Under current law, funding for compensatory education, sparsity, transportation sparsity, declining enrollment, secondary education, post-secondary enrollment options, nonpublic pupil, nonpublic transportation, Indian tribal contract aid, and first grade preparedness is linked to the general education formula allowance. When the formula allowance is increased, the funding for these categorical programs increases automatically by a proportionate amount, without any specific consideration of cost patterns for these programs. De-linking the funding for these programs from the basic formula allowance will facilitate better alignment between funding and necessary costs through regular legislative review of funding levels. For FY 2006 and FY 2007, annual increases of 2% will be provided for these programs.

10. Recalculate transition revenue to ensure that all districts receive a minimum guaranteed increase for FY 2007.

The reforms outlined above have differential impacts on districts across the state. To ensure that every district will receive at least a minimum guaranteed increase for FY 2007, the old transition revenue formula is replaced with a new formula that will remain in effect through FY 2010. Under the new formula, each district will receive at least the amount of general education revenue it would have received for fiscal year 2007 under the formulas in effect for fiscal year 2006 (including the 2% formula increase provided for FY 2006), plus the amount of the district's levy limitations for taxes payable in 2005 for levies being rolled into the discretionary levy, plus \$199 per pupil.

11. Adjust general education aid appropriation for impact of changes in school levies on property tax levy early recognition adjustment.

Under current law, school districts recognize 48.6% of most levies in the fiscal year the levy is certified. To make the early recognition of levies revenue neutral to school districts, general education aid is reduced by the amount of the increase in early recognition of levies over the prior year. Increasing the referendum cap, replacing miscellaneous levies with a discretionary levy, authorizing school districts to levy for special education, deferred maintenance and alternative compensation, and other proposed changes in school district levy limits will increase the subtraction from general education aid for early recognition of levies. Taken together, the early recognition of levies and the state aid adjustment have no net impact on school district aid and levy revenue.

12. Increase Property Tax Refund (PTR) Program.

As school districts increase local levies, the state experiences higher costs in its Property Tax Refund (PTR) program. The Governor's Tax Aids and Credits budget pays for these costs by appropriating an additional \$3.695 million to the PTR program in FY 2006-07.

DEPARTMENT OF EDUCATION

Program: GENERAL EDUCATION

Change Item: General Education Funding Changes

Relationship to Base Budget

The proposed increases in state appropriations are 5% of the base budget for FY 2006 and 4.4% of the base budget for FY 2007. The proposed revenue increases (aid entitlement plus levy) on a per pupil basis are 2.4% of current law revenue for FY 2006 and 7.1% of current law revenue for FY 2007.

Key Measures

The table below shows school district general operating resources for FY 2003-09 (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 pupil will be \$8,522 in FY 2006 and \$9,066 in FY 2007.

Total District General Fund Revenue from State Aids and Property Taxes Governor’s Budget Recommendations

Revenue Per Pupil*

Fiscal Year	Operating Referendum Revenue		Other Revenue		Total Revenue Per Pupil	
	Amount	% Change	Amount	% Change	Amount	% Change
2002	\$680		\$6,860		\$7,540	
2003	364	(46.5%)	7,676	11.9%	8,039	6.6%
2004	535	47.0%	7,678	0.0%	8,213	2.2%
2005	636	18.9%	7,687	0.1%	8,323	1.3%
2006	670	5.3%	7,852	2.1%	8,522	2.4%
2007	809	20.7%	8,257	5.2%	9,066	6.4%
2008	880	8.8%	8,294	0.4%	9,175	1.2%
2009	\$1,000	13.6%	\$8,303	0.1%	\$9,308	1.4%

*Current year average daily membership, with regular kindergarten weighted at .5

The table below is a subset of the district general fund table above. This shows district revenue from the general education program only. For comparability with prior years, alternative compensation aid and the miscellaneous levies rolled into the general education program are included in the amounts reported for all years.

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

Revenue Per Pupil

Fiscal Year	Operating Referendum Revenue		Other Revenue		Total Revenue Per Pupil	
	Amount	% Change	Amount	% Change	Amount	% Change
2002	\$680		\$5,706		\$6,386	
2003	364	(46.5%)	6,405	12.2%	6,768	6.0%
2004	535	47.0%	6,363	(0.7%)	6,898	1.9%
2005	636	18.9%	6,401	0.6%	7,037	2.0%
2006	670	5.3%	6,537	2.1%	7,208	2.4%
2007	809	20.7%	6,908	5.7%	7,717	7.1%
2008	880	8.8%	6,902	(0.1%)	7,782	0.8%
2009	\$1,000	13.6%	\$6,894	(0.1%)	\$7,894	1.4%

A key measure for the Q Comp program is that future advancement on the salary schedule will be based on criteria other than the traditional “steps and lanes”.

DEPARTMENT OF EDUCATION

Program: GENERAL EDUCATION

Change Item: General Education Funding Changes

Statutory Changes: Amend M.S. 122A.414 and M.S. 122A.415 to establish a new alternative teacher compensation program. Amend M.S. 123A.05, Subd. 2, to adjust ALC funding for the updated transportation sparsity formula. Amend M.S. 124D.65, Subd. 5, to adjust the LEP formula for the change from marginal cost pupil counts to current year pupil counts. Amend M.S. 126C.01 to adjust the shared time formula for the change in pupil unit calculations. Amend M.S. 126C.05 to eliminate grade level pupil unit weightings and marginal cost pupil units. Amend M.S. 126C.10 by adding new subdivisions for secondary education revenue, declining enrollment revenue, and discretionary revenue, and amending other subdivisions for changes in general education funding formulas. Amend M.S. 126C.17 for changes in referendum formulas. Amend M.S. 126C.40 for changes in the building lease levy.

Repeal M.S. 123A.39, Subdivision 3, severance levy. Repeal M.S. 123B.05, the January 15 contract deadline and penalty. Repeal M.S. 123B.05, St. Paul severance levy. Repeal M.S. 126C.43, Subd. 2, reemployment insurance levy, and Subd. 3, judgment levy. Repeal M.S. 26C.44, safe schools levy. Repeal MS 126C.445, Tree growth replacement levy. Repeal M.S. 126C.45, ice arena levy. Repeal M.S. 126C.455, swimming pool levy. Repeal M.S. 126C.12, learning and development revenue amount and use. Repeal M.S. 27A.50, aid adjustments due to changes in employer retirement contribution rates.

DEPARTMENT OF EDUCATION

Program: OTHER GENERAL EDUCATION PRGS

Change Item: Change Levy Year for Abatement Aid

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$537)	(\$530)	(\$440)	(\$424)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$537)	(\$530)	(\$440)	(\$424)

Recommendation

The Governor recommends that abatement aid for school districts be calculated using the certified levy date for the third preceding year (instead of the preceding year) to more accurately reflect the aid/levy mix for the year for which taxes were abated.

Background

This proposal changes the levy year used for the abatement aid ratio to correct a mismatch of years.

School districts lose revenue when taxes on one property are reduced after the district's levy has been spread over all property of the district. The district recovers a portion of this revenue loss through abatement aid. The district also has authority in the next year to levy for the loss not recovered through abatement aid.

A ratio of the equalized levies to the total levy is determined in section (2) of M.S. 127A.49, Subdivision 2. This ratio is applied to the total abatements to determine the amount of abatement aid. For abatements in 2002, the ratio is determined using the levies payable in 2003.

However, based on provisions (A) through (D) in M.S. 127A.49, Subdivision 2, a levy is considered equalized and thus included in the numerator of the ratio if the district received the related state aid in FY 2002. Since the levy being included in the numerator is for taxes payable 2003 (revenue for FY 2004) but the aid used to determine if the levy should be included is for FY 2002, there is a mismatch of years.

This ratio also determines the fund allocation of the abatement revenue. School districts allocate the revenue lost from abatements between funds based upon the fund ratio for the tax year for which taxes are being abated. Abatements finalized in 2002 are for taxes payable in 2002 or earlier. This change will also provide overall abatement revenue in proportions that more accurately reflect the fund allocation for the year the revenue was lost.

In most years, this mismatch in years has no major impact, but when changes are made to equalized levies the impact becomes more noticeable. The basic general education levy was eliminated after taxes payable for 2001. Thus, for taxes payable after 2001, the general fund makes up a smaller portion of the total levy while the debt fund makes up a larger portion.

This proposal will be effective for FY 2006 for abatement aid and for taxes payable 2006 for abatement levy authority.

Relationship to Base Budget

The proposed change reduces the state appropriation need by approximately \$537,000 in FY 2006, \$530,000 in FY 2007, \$440,000 in FY 2008, and \$424,000 in FY 2009.

Statutory Change: Amend M.S. 127A.49, Subdivision 2.

DEPARTMENT OF EDUCATION

Program: OTHER GENERAL EDUCATION PRGS

Change Item: Administrative District Levy

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$0	\$0	\$0	\$0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$0	\$0	\$0	\$0

Recommendation:

The Governor recommends that school districts be authorized to form education administrative districts to increase the efficiency of administrative services for elementary and secondary education by combining administrative functions for multiple school districts, while maintaining independent school district control of individual student attendance sites. A school district that is a member of an education administrative district will be allowed to levy an amount equal to the district's share of costs approved by the commissioner for retirement and severance incentives and other start-up costs included in the agreement under subdivision 4, paragraphs (b) and (c), over a period of time not to exceed three years.

Background:

As enrollment declines, the per-pupil cost of administrative services increases. Opportunities exist for significant cost savings through the consolidation of administrative functions for multiple school districts, especially in rural areas. To establish a stable structure for delivery of administrative services in small rural schools that will facilitate attainment of these savings, while preserving the authority of local school boards to operate and maintain current student attendance sites, groups of school districts will be authorized to form education administrative districts. An education administrative district must have one of the following at the time of formation:

- ◆ at least five districts;
- ◆ at least three districts with a total of at least 5,000 pupils in average daily membership; or
- ◆ at least three districts with a total of at least 2,000 square miles.

Before entering into an agreement, the school boards of the proposed member districts must jointly submit the proposed agreement to the commissioner for review and comment. The commissioner shall submit a review and comment on the educational and economic advisability of the proposed agreement to the school boards within 60 days of receiving the proposal. If the commissioner submits a negative review and comment, the districts do not qualify for levy authority.

The levy authority will provide an incentive for small rural districts to enter into education administrative districts. Over the longer term, the administrative cost savings will help participating districts to maintain quality education programs in small rural schools.

Relationship to Base Budget:

The state total administrative district levy is projected to be \$100,000 for taxes payable in 2006, \$300,000 for taxes payable in 2007, and \$700,000 for taxes payable in 2008.

Key Measures:

After each of its first five years of operation, the board shall submit an annual report to the member districts and the commissioner regarding the activities of the education administrative district, including analysis of the impact of the arrangement on administrative costs and efficiency.

Statutory Change: Amend M.S. 123A.24; add new language.

DEPARTMENT OF EDUCATION

Program: OTHER GENERAL EDUCATION PRGS

Change Item: Allocation of Transportation Costs

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures				
Nonpublic Pupil Transportation	\$0	\$0	(\$328)	(\$400)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$0	\$0	(\$328)	(\$400)

Recommendation

The Governor recommends changes in the categories of expenditures included in the regular and disabled transportation categories and in responsibilities for transporting homeless students to improve fairness and encourage efficiency, and recommends that districts be permitted to levy for a portion of the cost of replacing potentially defective Carpenter school buses.

The Governor recommends the following changes in pupil transportation funding:

1. Permit school districts to levy up to \$30,000 times the number of Carpenter school buses in their fleets as of January 1, 2004, that have been determined to have potentially defective welds and are subject to limitations imposed by the Minnesota Department of Public Safety.
2. Limit the types of employees for whom indirect costs can be charged to transportation, require school districts to document the salaries/fringe benefits of part-time employees that are claimed for transportation funding, and require all school districts to use the same standard procedures for allocating costs among transportation categories, to ensure a more equitable distribution of special education and nonpublic transportation aids.
3. Include depreciation on buses used primarily for special education in the calculation of base revenue for special education aid.
4. Include travel for special education staff between public schools and nonpublic schools or neutral sites in the calculation of base revenue for special education aid.
5. Change the transportation category for nondisabled students in care and treatment from the disabled category to the regular category if the students can be transported on regular school bus routes without special accommodations.
6. Include the additional costs of transporting currently homeless students living in nonshelter locations and formerly homeless students from their temporary/permanent home in another district to the district where the school of origin is located in the calculation of base revenue for special education aid. For those who have found permanent homes, this funding would only be provided through the end of the academic year.
7. Require the district enrolling a homeless pupil temporarily residing in a shelter in another district to provide transportation, unless the district enrolling the pupil and the district in which the pupil is temporarily placed agree that the district in which the pupil is temporarily placed will provide transportation.

Background

1. Carpenter Bus Levy

As of January 1, 2004, 42 school districts owned 121 Carpenter that have been determined to have potentially defective welds and are subject to limitations imposed by the Minnesota Department of Public Safety. Permitting these districts to levy up to \$30,000 per bus for replacements will mitigate the financial impact on the affected districts and help ensure student safety.

2. Transportation Cost Allocations

Most pupil transportation expenditures are funded through the general education program on a per pupil basis. However, expenditures included in the disabled transportation category are funded through the special education and excess cost formulas, and expenditures for transporting nonpublic pupils are included in the nonpublic pupil transportation formula. Because the regular special education and excess cost formulas have fixed statewide funding caps, changes in the categories of expenditures charged to the disabled transportation category have no impact on the state total aid, but change aid allocations among districts.

Recent audits of school districts transportation expenditures have found that districts are including more part-time administrative and clerical salaries/fringe benefits in transportation, in many cases without documenting the time and effort these employees spent on transportation tasks. Also, some school bus contractors allocate a disproportionate share of expenses to those categories of transportation where funding is based on costs. Given the fixed statewide appropriations for special education and excess cost aid, these reporting practices reduce the effective rate of reimbursement for special education teacher salaries, special education bus driver salaries and other direct costs of serving children with disabilities, and shift funding among districts. Standardizing and limiting the indirect costs that can be charged to transportation will reduce the amount charged to the transportation category by approximately \$1.5 million per year. This will make funds available under the current special education funding level for the cost of transporting homeless students as described below, without reducing the effective rate of reimbursement for other special education costs. By lowering the indirect costs charged to the regular transportation category, this change would also slightly reduce nonpublic pupil transportation aid, which is based on the district average transportation cost per pupil.

Under current law, operating costs for disabled student transportation, including leasing special education vehicles, are fully reimbursable for special education aid, but capital costs, including the purchase of special education vehicles, are not eligible. While the cost of purchasing special education vehicles is generally lower than the cost of leasing the vehicles, most districts either contract for all special education transportation services or lease the vehicles, because of the incentives provided by the funding formula. Similarly, transportation of disabled students between public and nonpublic schools for shared time services is currently eligible for special education funding, but travel for school district special education staff to a nonpublic school or neutral site to serve these students is ineligible. In most cases, the cost of travel for the special education staff would be significantly less than the cost of transporting the students. Making newly purchased special education buses and travel for special education staff between public and nonpublic schools eligible for state special education funding on a depreciation formula would eliminate these incentives and lower the total amount of transportation cost included in the special education formula.

Under current law, costs for transporting nondisabled students in care and treatment can be included in the disabled category, even if the students can be transported on regular school bus routes without special accommodations. Requiring districts to report costs for students transported on regular school bus routes without special accommodations in the regular category will also lower the total amount of transportation cost included in the special education formula.

3. Transportation of Homeless Students

The McKinney-Vento Homeless Assistance Act (federal law) requires school districts to transport homeless children and youth to the school of origin if requested by the parent, guardian, or homeless education liaison. Under current law, the cost of transporting homeless students living in shelter situations to the school of origin is included in the disabled category and funded through the special education formula, but the cost of similar transportation provided to homeless students living in nonshelter locations is excluded. Including the cost of transporting homeless students living in nonshelter locations in the disabled category will increase the amount charged to the disabled transportation category by approximately \$1.5 million per year. This will be funded under the current special education funding level through offsetting reductions in indirect cost allocations as outlined above.

In addition, current law makes the district where the shelter is located responsible for transporting a homeless student to the school of origin, but pays the general education aid to the district enrolling the student. Requiring the district enrolling the student to provide the transportation, unless the two districts agree otherwise, would better align funding and facilitate transportation efficiency.

Relationship to Base Budget

Because of the statewide caps on regular special education and excess cost aid, the changes in transportation cost allocations will have no impact on the state total aid, although there will be modest aid redistribution among districts. Because of the two-year lag in the nonpublic transportation formula, the changes in transportation cost

DEPARTMENT OF EDUCATION

Program: OTHER GENERAL EDUCATION PRGS

Change Item: Allocation of Transportation Costs

allocations will have no impact on state aid in the current biennium, but will reduce the base budget by 1.4% for FY 2008 and 1.7% for FY 2009.

Key Measures

Transportation funding provided through the special education aid formula will be allocated more equitably and incentives for cost savings will be strengthened.

Statutory Changes: Amend M.S. 123B.92, Subd. 1 and 5, to revise the categories of expenditures included in the regular and disabled transportation categories. Amend M.S. 125A.51 to change responsibilities for transporting homeless students.

DEPARTMENT OF EDUCATION**Program: OTHER GENERAL EDUCATION PRGS****Change Item: Inflate/Delink Programs****Preliminary Proposal**

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures				
Nonpublic Pupil Aid	90	213	246	259
Nonpublic Pupil Transport	400	834	941	979
Tribal Contract Aid	36	83	99	106
First Grade Preparedness	0	0	0	0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	526	1,130	1,286	1,344

Recommendation

The Governor recommends providing a 2% inflationary increase and de-linking the nonpublic pupil, nonpublic pupil transportation, and tribal contract schools formulas from the general education formula. The per pupil allowance for first grade preparedness will also be delinked from the general education formula.

Background

The proposed changes would keep the funding for these programs in line with the Governor's general education changes and de-link categorical formulas from the general education formula.

Because nonpublic pupil, nonpublic transportation and tribal contract aids are forecasted programs, the appropriations will be increased to reflect the inflationary increase in the formulas. First grade preparedness is not a forecasted program and has a fixed appropriation. In keeping with past practice, the statewide appropriation is not increased for inflation.

Relationship to Base Budget

FY 2007 changes represent an increase from base of 1.3% for nonpublic pupil aid, 3.7% for nonpublic pupil transportation aid, and 3.6% for tribal contract school aid. First grade preparedness will be funded at the base budget level of \$7,250,000.

Statutory Change: Amend M.S. 123B.42, Subdivision 3; 123B.92, Subdivision 9; M.S. 124D.081; M.S. 124D.83.

DEPARTMENT OF EDUCATION**Program: EDUCATION EXCELLENCE****Change Item: Get Ready, Get Credit Program**

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
EPAS	\$829	\$829	\$829	\$829
CLEP	825	1,650	1,650	1,650
AP/IB	1,222	1,222	1,222	1,222
Net Fiscal Impact	\$2,876	\$3,701	\$3,701	\$3,701

Recommendation

The Governor recommends \$2.876 million in FY 2006, \$3.701 million in FY 2007, \$3.701 million in FY 2008, and \$3.701 million in FY 2009 for a series of high school initiatives called *Get Ready, Get Credit* aimed at preparing high school students for post-secondary education options. Additionally, the program provides opportunities for high school students to receive college credit for successful completion of College Level Examination Program (CLEP) and AP/IB (Advanced Placement/International Baccalaureate) exams.

Background

Recently, both ACT and the Citizens League released reports indicating that a significant number of high school students are not prepared for post-secondary education and require remediation in core curriculum. The Governor is proposing a series of three initiatives to improve high schools, to provide more opportunities for students to be better prepared for post-secondary education, and to provide more opportunities for students to obtain college and university credit while attending high school.

College Readiness – Get Ready – EPAS System: Grade 8 Explore, Grade 10 Plan

The Governor is proposing that school districts and charter schools voluntarily participate in the Educational Planning and Assessment System (EPAS) program funded by the state. The ACT EPAS system provides a longitudinal, systematic approach to educational and career planning, assessment, instructional support, and evaluation. The EPAS achievement tests includes English, reading, mathematics, science, and includes components on planning for high school and beyond, interest inventory, needs assessments, and student education plans. Annual costs are estimated at \$829,000 per year.

The Minnesota Department of Education (MDE), in conjunction with districts and schools, will provide assessments that will help determine student strengths and weaknesses using the ACT Explore tests at grade 8 and the ACT Plan test at grade 10. The state will bear the cost of these two tests for Minnesota students. These tests are linked to the ACT assessment for college admission and will allow students, teachers, schools, and parents to determine college readiness earlier than the junior or senior year in high school. In addition, the ACT tests will allow for linkage to the state accountability system (Minnesota Comprehensive Assessments-II) and will help determine preparedness at an even earlier grade.

College Credit – Get Credit – College Level Examination Program (CLEP)

Minnesota has provided a wealth of opportunities for high school students to get college credit, including Post-Secondary Education Options (PSEO) and College in the Schools (CIS). However, due to the cost and geographic barriers, it is not always possible for students to utilize those options. Additionally, many parents have concerns about their children attending colleges and prefer they remain within a public high school setting for a variety of reasons.

Under this proposal, the Governor is proposing Minnesota public high school students who master one or more college level courses in high school earn college credit. Subject areas in which students may earn credit include the following:

- ◆ composition and literature
- ◆ mathematics
- ◆ science
- ◆ history and social sciences

- ◆ foreign languages
- ◆ business

Students demonstrate their mastery by earning a particular score on the CLEP test for that subject area. CLEP exams cover material taught in the courses that most students take as requirements in the first two years of college. Many colleges grant the same amount of credit to students earning satisfactory scores on the CLEP exam as they grant to students successfully completing the course. In fact, approximately 2,900 colleges and universities across the country grant credit or advanced standing for successful completion of CLEP exam.

Under this proposal, all Minnesota State Colleges and Universities (MnSCU) institutions will grant undergraduate credit for students who achieve the required scores on the CLEP exams. The Governor also encourages the University of Minnesota to agree to grant college credit under this program. The state will cover the cost of the exams up to a capped level, and districts may cover the exam fees or allow the fee to be paid by the parents or guardian of the student in the event the state appropriation does not cover the exam.

MDE is setting a goal of 5,000 student reimbursements for CLEP tests in FY 2007 and 7,500 in FY 2008. MDE anticipates that additional students will participate through reimbursement of exam fees by school districts and by fees paid by parents or guardians. Students will be eligible to receive state reimbursement for up to six exams up to a capped state appropriation. Preference will be given to low-income students. Students will be allowed to receive credit for all CLEP exams offered by the College Board. State costs are estimated at \$825,000 in FY 2006, \$1.65 million in FY 2007, \$1.65 million in FY 2008, and \$1.65 million in FY2009.

Advanced Placement and International Baccalaureate (AP/IB)

The Governor recommends an annual appropriation increase of \$1.222 million beginning in FY 2006, adding a component to the program that will provide a stipend to teachers of AP/IB programs based on numbers of students passing AP/IB examinations, and making changes in program administration. Under the Governor's recommendation, students completing AP/IB classes and passing examinations with a three or above would receive college credit.

AP/IB funding currently provides partial reimbursement of training for teachers of AP/IB programs, reimbursement of examination fees for students of low-income families, and partial reimbursement of examination fees for other students. Based on current estimates, reimbursement of student examination fees will increase by approximately \$900,000 allowing full reimbursement of examination costs for students from low-income families and reimbursing other students for approximately 40% of fees. Teacher training fee reimbursement will remain at approximately the current expenditure level.

Laws enacted in 1997 provided each program teacher a stipend for students scoring 3, 4, or 5 on a scale of 1 – 5. The stipend rewarded teachers of AP/IB programs for student performance. This stipend was discontinued in FY 2000. Implementation of the stipend will reward teachers whose students demonstrate success on AP/IB examinations. Based on current estimates, approximately \$420,000 is provided for teacher stipends.

Relationship to Base Budget

Get Ready-Get Credit-EPAS System – This is a new appropriation.

Get Ready-Get Credit-College Level Examination – This is a new appropriation.

Advanced Placement and International Baccalaureate – The base budget for the AP/IB program was set at \$2 million for FY 2003 and FY 2004 by the 2001 legislature. The appropriation was subsequently decreased to \$1 million beginning in FY 2003 and to \$778,000 for FY 2004-05. This recommended change represents an increase over the current base of 257%.

Key Measures

- The EPAS System will provide more opportunities for students to prepare and plan for post-secondary education
- Students will have access to CLEP testing opportunities

DEPARTMENT OF EDUCATION

Program: EDUCATION EXCELLENCE

Change Item: Get Ready, Get Credit Program

- Students will have increased opportunities to obtain college and university credit while attending high school.

Statutory Changes: New language is required for the Get Ready-Get Credit programs. Amend M.S. 120B.13 Advanced Placement and International Baccalaureate Programs.

DEPARTMENT OF EDUCATION

Program: EDUCATION EXCELLENCE

Change Item: Neutralize Change in Pupil Accounting

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures – Integration	0	65	(144)	(747)
Expenditures – Health & Safety	0	(2)	(2)	(2)
Expenditures – Debt Equal.	0	0	23	51
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	0	63	(123)	(698)

Recommendation

The Governor recommends the following changes beginning in FY 2007 to neutralize the impact of pupil accounting changes on categorical aids and levies:

1. Increase integration revenue allowances as follows:
 - ◆ Minneapolis & St Paul: from \$445 to \$534
 - ◆ Additional Minneapolis levy: from \$35 to \$43
 - ◆ Duluth: from \$206 to \$249
 - ◆ Other qualifying districts with protected student concentration exceeding 15%: from \$129 to \$156
 - ◆ Other qualifying districts with protected student concentration of 15% or less: from \$92 to \$111
2. Increase allowances for consolidation transition revenue from \$200 in the first year of consolidation and \$100 in the second year of consolidation to \$240 in the first year and \$120 in the second year. Reduce the cap on the number of students for whom aid is paid from 1,500 to 1,250.
3. Increase the charter school building lease allowance from \$1,200 to \$1,316 for elementary pupils and to \$1,552 for secondary pupils, and adjust the grandfather allowance for each affected school by the ratio of the old formula pupil units to the new formula pupil units for FY 2003.
4. Increase the charter school startup allowance from \$500 to \$550 for elementary pupils and to \$648 for secondary pupils.
5. Increase startup aid for metropolitan magnet schools from \$500 to \$569 per pupil unit.
6. Increase the equalizing factors for debt service equalization from \$3,200 for tier 1 and \$8,000 for tier 2 to \$3,832 for tier 1 and \$9,546 for tier 2.
7. Increase the equalizing factor for health and safety from \$2,935 to \$3,535.
8. Increase the equalizing factor for school age care from \$2,433 to \$2,925.

Background

Under current law, school districts and charter schools generate additional pupil units based on enrollment decline and grade level pupil unit weightings. For FY 2007, state total adjusted pupil units are estimated at 942,266, and state total adjusted marginal cost pupil units are estimated at 945,637. Under the Governor’s recommendation, the additional pupil units generated for declining enrollment and grade level weights are eliminated, and regular kindergarten students are counted as .5 pupil unit. For FY 2007, the state total number of pupil units under the governor’s recommendation is estimated at 788,087.

To neutralize the effect of the change in pupil accounting, categorical allowances and equalizing factors based on pupil units are adjusted to maintain approximately the same level of revenue, aid and levy for each district and charter school. The changes from current law in state total aids and levies shown in the table above are due to rounding of the new allowances and equalizing factors.

Statutory Change: Amend MS 123A.485, Consolidation Transition Aid. Amend MS 124D.11, Subd 4, Charter School Building Lease Aid, and Subd. 8, Charter School Start-up Aid. Amend MS 124D.22, School Age Care Revenue. Amend MS 124D.86, Integration Revenue. Amend MS 124D.88, Metropolitan Magnet School Grants. Amend MS 123B.53, Debt Service Equalization. Amend MS 123B.57, Health & Safety Levy.

DEPARTMENT OF EDUCATION

Program: EDUCATION EXCELLENCE

Change Item: Career & Technical Education Grant & Levy

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$1,000	\$1,000	\$0	\$0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$1,000	\$1,000	\$0	\$0

Recommendation

The Governor recommends improving career and technical education in Minnesota by

- ◆ establishing a two-year Minnesota Modular Career Education grant program, aimed at junior high or middle school students, and
- ◆ replacing the current career and technical levy program with a new levy program based on current data and contemporary vocational education curriculum beginning in FY 2008 by allowing districts to levy, beginning with taxes payable 2008, the lesser of \$80 times the district's average daily membership in grades 10 to 12 for the fiscal year in which the levy is certified or, 25% of the approved expenditures in the fiscal year in which the levy is certified. Eligible expenditures are limited to salaries of eligible instructional staff, contracted services, travel, curriculum development, and specialized vocational instructional supplies.

Background

Career and technical aid (formerly referred to as secondary vocational aid) was eliminated after FY 2001. Special, one-time levies were authorized for FY 2002 and FY 2003 to continue career and technical support. In 2003, the career and technical levy was made permanent. Under current law, M.S. 126C.457, a school district may levy an amount equal to the greater of \$10,000 or the amount of the district's secondary vocational aid for FY 2001.

This proposal would replace the current career and technical levy with a new career and technical levy program beginning with taxes payable in 2008. As with the current career and technical levy, the new levy would be recognized as revenue in the fiscal year it is certified (e.g., pay 2008 levy recognized as revenue in FY 2008). This new program would restore much of the formula-based program that existed prior to the repeal of the vocational education aid in 2001, but it would be funded by levies instead of aid. The funding would be based on prior year data (instead of frozen FY 2001 data), as well as more contemporary vocational education program features.

Prior to initiation of this new career and technical levy program in FY 2009, the Minnesota Department of Education (MDE) would provide grants to establish up to 20 mid level (junior high or middle school) demonstration programs, which would require students to spend blocks of time in technology-based program modules emphasizing practical, hands-on formats where career possibilities are underscored. Modules examples include: CNS - computer numerical control, decision logic, computer aided design and drafting, graphics and animation, robotics, audio broadcasting, desktop publishing, computer problem solving, material and fabrication, engineer and structures, research and design, electricity and information management, electronic communications, DNA, data management, safety issues, bio-chemistry, computer modeling, genetics, and geographic information systems.

MDE will develop the program approval process and performance measures through the rulemaking process.

Relationship to Base Budget

The appropriations for FY 2006 and FY 2007 are for a one-time grant program. \$20,000 of the appropriation in FY 2006 will be used for rulemaking. The pay 2008 and pay 2009 levies are expected to increase over current levels by about \$2.6 million per year.

DEPARTMENT OF EDUCATION

Program: EDUCATION EXCELLENCE

Change Item: Career & Technical Education Grant & Levy

Key Measures

Minnesota remains globally competitive with emerging workforce skills.

Alternatives Considered

The alternative is not to change the current levy formula, which is based on data from FY 2001 (four years old).

Statutory Change: Add new section.

DEPARTMENT OF EDUCATION

Program: Education Excellence

Change Item: Scholarship Tax Credit

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	250	250	250	250
Revenues	0	(3,500)	(3,750)	(3,750)
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	250	3,750	4,000	4,000

Recommendation

The Governor recommends expanding education choices for children by allowing a tax credit to corporations contributing to scholarship granting organizations that provide financial aid to low- and moderate-income families to help cover the cost of tuition at K-12 private schools.

Background

Corporate income tax credits will be provided for contributions to qualifying Scholarship Organizations (SOs). Scholarship Organizations are federal tax-exempt charitable organizations that receive private contributions and provide scholarships to students attending K-12 private schools in Minnesota.

To be eligible to participate in the program, Scholarship Organizations would need to meet a number of requirements, including:

- Allocate at least 80% of the annual revenue they receive for their scholarship funds to financial assistance for families.
- Use contributions claimed for the tax credit only for funding scholarships for children of families with incomes at or less than 250% of federal poverty guidelines.
- Not restrict the scholarships to one school or to students in one school.
- Not charge a fee of any kind to students or families applying for a scholarship.

A corporation would be able to claim a tax credit equal to 50% of the amount contributed to a Scholarship Organization (not to exceed its liability for tax) up to a maximum credit of \$100,000. To restrict the potential costs of this program, the statewide maximum amount of tax credit is set at \$3,500,000 in FY 2007 and \$3,750,000 in FY 2008 and beyond. Certification for the tax credit will be handled by either the Department of Revenue or the Department of Education. An amount of \$250,000 per year will be allocated for administrative expenses related to certification of the tax credits, program oversight, and evaluation. The tax credit would be effective for taxable years beginning after December 31, 2005.

Relationship to Base Budget

This is a new program.

Key Measures

Qualifying students and families will be provided an additional education choice.

Alternatives Considered

Several models for scholarship organizations providing this choice exist. This proposal limits state revenue losses.

Statutory Change: Amend MS 290.01, subd. 19c. Add new statute.

DEPARTMENT OF EDUCATION**Program: EDUCATION EXCELLENCE****Change Item: Equal Access to On-Line Learning**

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$1,000	\$2,000	\$3,000	\$4,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$1,000	\$2,000	\$3,000	\$4,000

Recommendation

The Governor recommends increasing the funding for the on-line learning (OLL) option program authorized under M.S. 124D.095 by \$3 million in FY 2006-07 to provide more Minnesota families with access to public education on-line learning schools and programs.

Background

Funding for students who were not enrolled in a Minnesota public school the year before they enrolled in an OLL program is capped at \$1.25 million in FY 2005 and later. As a result, enrollment in OLL schools or programs is limited to the equivalent of about 240 full-time secondary students. The proposal will allow for growth in the number of students who could access on-line learning programs.

Estimates of student participation in OLL that were provided to the commissioner by the programs approved for FY 2005 exceeded the appropriation by \$955,000. As a result, statute requires the commissioner to prioritize funding based on eligible students who participated during FY 2003, holding programs harmless at their FY 2003 funding level. Programs with students who participated in OLL during FY 2003 and who completed the school year at the same program during FY 2004 would require \$425,000 to continue enrollment for these students in FY 2005. An additional \$713,000 was reserved for participants who entered the program in FY 2004. Programs in operation during FY 2004 were allowed the lesser of the expected number of returning students or their actual estimates, which left \$112,000 for new programs and program growth. New programs and those with no returning eligible students in FY 2004 were allowed the lesser of their estimated participation or \$22,620 for start-up. Participants in the OLL programs must complete their OLL courses for the program to generate this funding. No funds were available in FY 2005 for expansion of existing programs with returning eligible students.

The proposal will allow for growth in the number of students who could access OLL programs. The equivalent of 190 additional full-time secondary students could be served in FY 2006 and an additional 380 in FY 2007.

Relationship to Base Budget

This initiative would increase the budget base from \$1.25 million in FY 2006 to \$2.25 million and from \$1.25 million in FY 2007 to \$3.25 million.

Alternatives Considered

An alternative would be to allow all students that have participated in an OLL program in the prior year to generate general education revenue rather than having some students generate on-line learning aid from the capped appropriation.

DEPARTMENT OF EDUCATION

Program: EDUCATION EXCELLENCE

Change Item: Staff Development Program & Reserved Revenue

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$0	\$0	\$0	\$0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$0	\$0	\$0	\$0

Recommendation

The Governor recommends amending M.S. 122A.60 (Staff Development Program) and M.S. 122A.61 (Staff Development Reserved Revenue) to

- ◆ make the statutory language more reader-friendly and better sequenced;
- ◆ align the legislation with Minnesota statutes on accountability and rigorous academic standards as well as the *No Child Left Behind* (NCLB) law;
- ◆ require staff development funding to be focused on instructional improvement areas that are identified after a study of ways to improve student achievement, including narrowing the achievement gaps among student groups;
- ◆ specify the responsibilities of the district advisory committee and the requirements for each site team’s plan;
- ◆ require that staff development activities meet criteria for high quality professional development;
- ◆ require the principal to approve the site plan and the school board to approve the district staff development goals and site team plans;
- ◆ allow districts to reduce the amount of funds reserved for the current year by the amount expended for these purposes in the current fiscal year from its reserved for staff development fund balance.

Background

This proposal focuses the current smorgasbord of staff development activities funded by staff development revenue to a single purpose: Staff development activities must improve the quality of teaching and increase the achievement of all students, including eliminating achievement gaps among groups of students. This purpose replaces the current seven legislative goals for staff development, only one of which directly addresses student achievement.

A district is required to reserve an amount equal to at least 2% of the basic revenue under M.S. 126C.10, Subdivision 2 for staff development programs under M.S. 120B.22, Subdivision 2. Current law requires districts and sites to have staff development plans but does not require plans to be aligned with the results of an analysis of local data related to teacher quality and student achievement issues.

This proposal:

- ⇒ Requires staff development plans to be aligned with needs identified from analysis of local data (i.e., a “local needs assessment,” as referred to in NCLB), and information submitted on federal applications.
- ⇒ Requires districts and schools to use staff development funds on *effective* staff development activities that improve teaching and learning. (Includes activities identified as high-quality professional development in Title IX, Section 9101(34) of the Elementary and Secondary Education Act (ESEA), principles for effective staff development compiled by the Education Commission of the States (ECS) based on research conducted by the *National Partnership for Excellence and Accountability in Teaching*, the *National Staff Development Council* and the *Consortium for Policy Research in Education*, and violence prevention training as authorized in 120B.22, Subdivision 2.)
- ⇒ Provides funding flexibility by allowing school boards to reduce the amount reserved in the current year by the amount of staff development reserves from prior years expended for staff development in the current year.

Key Measures

These changes will strengthen the school district's ability to provide effective staff development that impacts student achievement by improving the content knowledge and instructional skills of teachers, and improving the leadership skills of principals in directing instructional improvement.

School districts and sites will more effectively align staff development activities with federal requirements for NCLB. Federal officials will see the clear alignment between Minnesota's staff development legislation and NCLB requirements.

Statutory Change: Amend M.S. 122A.60 and M.S. 122A.61.

DEPARTMENT OF EDUCATION

Program: **SPECIAL EDUCATION**

Change Item: **Special Education Funding Changes**

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures				
Equalized Aid Increase	\$0	\$2,030	\$3,406	\$2,690
Special Education Aid	(334)	(407)	(407)	(407)
Academies				
Special Education Excess Cost		(80)	(126)	(80)
Academies				
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$334)	\$1,543	\$2,873	\$2,203

Recommendation

The Governor recommends changes to increase regular special education funding, improve the stability and predictability of special education excess cost funding, and make special education tuition billing more simple and uniform.

The Governor recommends the following changes in special education funding:

1. Increase regular special education revenue by 4% in FY 2007 and an additional 4% in FY 2008 and later. The revenue increase will be provided through an equalized special education levy. The equalizing factor for this levy will be \$6,900 of Adjusted Net Tax Capacity per pupil.
2. Beginning in FY 2006, allocate most special education excess cost aid using prior year data instead of current year data. Up to \$2 million of the excess cost aid will continue to be allocated based on current year data, for districts with extraordinary special education cost increases between the prior year and the current year.
3. For FY 2006, clarify special education tuition billing calculations in statute to reflect current funding formulas and to make the tuition billing process more simple and uniform. For FY 2007 and later, replace the current locally administered special education tuition billing process with an equivalent set of adjustments to special education aid payments calculated by the department.
4. Reduce state total special education-regular and excess cost aid by the amount of the aid reductions to the Faribault school district as a result of fiscal monitoring findings, if any, related to the district's mainstreaming contract with the Minnesota State Academies.

Background

1. Increase regular special education revenue by 4% in FY 2007 and an additional 4% in FY 2008 through an equalized levy.

Under current law, state total regular special education revenue equals the state total regular special education revenue for the previous fiscal year times the ratio of state total average daily membership (ADM) in the current fiscal year to state total ADM in the previous fiscal year. With special education costs increasing at an average rate of 4% per year and no inflationary increase in special education funding, the cross subsidy of unreimbursed special education costs with general education funds would increase significantly in coming years.

Increasing regular special education revenue by 4% in FY 2007 and an additional 4% in FY 2008 and later will enable special education funding to keep pace with increasing costs for those years, preventing further increases in special education cross subsidies. The increase for FY 2008 is included in the recommendations for the current budget cycle because the revenue will be raised through the 2006 payable 2007 levy, which must be certified in the fall of 2006, before the next budget session. Increases for FY 2009 and later will be considered as part of the next biennial budget.

2. Beginning in FY 2006, calculate special education excess cost aid using prior year data.

Special education excess cost aid provides targeted funding to reduce special education cross subsidies in districts with the large unfunded special education costs, after adjusting for regular special education aid and general education aid earned on behalf of special education students. While the department has made concerted efforts to assist districts with budget projections, school districts continue to have great difficulty projecting their excess cost aid and accurately recording their annual aid on year-end financial statements. Because final data for the fiscal year are generally not available when districts close their books, and because of the uncertainty of excess cost aid entitlements, many districts substantially understate their aid for the year, and make large adjustments in the subsequent fiscal year, once the actual aid is finalized.

Allocating most special education excess cost aid using prior year data instead of current year data will provide significantly greater stability and predictability in school district revenue budgeting and greater accuracy in school district financial statements. Districts will know the exact amount of their excess cost aid allocation based on prior year data midway through the fiscal year, instead of waiting six months after the end of the fiscal year. Allocating up to \$2 million of the excess cost aid based on current year data will ensure that districts with extraordinary special education cost increases between the prior year and the current year continue to receive current year funding to offset these increases.

3. Beginning in FY 2006, make the special education tuition billing process simpler and more uniform.

Under current law, all tuition billing for the education of nonresident children with disabilities must be done on uniform forms prescribed by the department. While the department has provided uniform forms and extensive training to school district and charter school personnel, the tuition billing process is extremely complicated and requires large amounts of local staff time. In addition, while the forms are uniform, local practices in implementing the forms vary, leading to inequities in the tuition bills. Finally, the statutes governing tuition billing calculations are outdated and do not provide sufficient direction to the department. The recommended changes will update, clarify, and simplify the tuition billing process, to ensure more uniform and understandable tuition billing practices and greatly reduced administrative burdens on school districts and charter schools.

When the general education revenue and referendum aid have been paid to the serving district under an attendance options program, the resident district will pay tuition for FY 2006 to the serving district equal to:

- ⇒ 100% of the actual cost of special education services and special transportation, minus
- ⇒ the special education aid received by the serving district, minus
- ⇒ the general education revenue and referendum aid generated by the pupil for the portion of time the pupil receives special instruction and services outside of the regular classroom, excluding the portion of the general education revenue and referendum aid attributable to district and school administration, district support services, operations and maintenance, capital expenditures, and pupil transportation.

When the resident district receives the general education and referendum revenue, the resident district will pay tuition for FY 2006 to the serving district equal to:

- ⇒ 100% of the actual cost of special education services and special transportation, minus
- ⇒ the special education aid received by the serving district, plus
- ⇒ the full general education revenue and referendum aid attributable to the portion of time the pupil spends in the regular classroom, plus
- ⇒ the portion of general education revenue and referendum aid attributable to district and school administration, district support services, operations and maintenance, capital expenditures, and pupil transportation for the portion of time the pupil receives special instruction and services outside of the regular classroom.

In either case, the resident district will be responsible for the excess cost of special education, and the serving district will receive:

- ⇒ full funding for the cost of special education, plus
- ⇒ the full general education revenue and referendum aid attributable to the portion of time the pupil spends in the regular classroom, plus
- ⇒ the portion of general education revenue and referendum aid attributable to district and school administration, district support services, operations and maintenance, capital expenditures, and pupil transportation for the portion of time the pupil receives special instruction and services outside of the regular classroom.

4. Reduce state total regular special education and excess cost aid for Faribault fiscal monitoring findings.

Preliminary fiscal monitoring done by the Minnesota Department of Education indicates that the mainstreaming contract between the Faribault Public Schools and the Minnesota State Academies is not being executed as designed and that special education staff employed by the Faribault Public Schools who provide services at the Academies unrelated to the mainstreaming of Academy students at the Faribault Public Schools are being funded with state special education aid. If the preliminary findings are confirmed, the Faribault Public Schools will lose a significant portion of its special education-regular and special education excess cost funding. This will have a direct impact on how the Academies provide services to their students. To allow the Academies to continue to provide the same services to their students, the aid reduction, if any, to the Faribault Public Schools will be subtracted from the state total regular special education and excess cost aid, and the funding to the Academies will be increased. The Faribault Public Schools and the Minnesota State Academies will have an opportunity to respond to the preliminary fiscal monitoring findings. As the findings are finalized, changes may be made to the recommendation in February.

Relationship to Base Budget

The proposed increase in state appropriations is .3% of the regular special education base budget for FY 2007. The proposed revenue increases (aid entitlement plus levy) are 4.0% of current law revenue for FY 2007 and 8.2% of current law revenue for FY 2008.

Key Measures

Special education cross subsidies from general education revenue will be reduced by \$21.0 million for FY 2007 and \$42.8 million for FY 2008 and later. School district budgeting and financial reporting relating to excess cost aid and tuition billing will be more accurate and predictable, and local administrative burdens will be reduced significantly.

Statutory Changes: Amend M.S. 125A.76 by adding subdivisions for an equalized special education levy. Amend M.S. 125A.79 for changes in the special education excess cost formula. Amend M.S. 125A.11, 127A.47, Subd. 7, and 124D.11, Subd 5, to update, clarify and simplify the special education tuition billing process.

DEPARTMENT OF EDUCATION

Program: FACILITIES & TECHNOLOGY

Change Item: Facilities Funding Changes

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Debt Equalization Appropriation	\$0	(\$683)	(\$1,345)	(\$1,537)
Equalized Deferred Maintenance		2,383	2,226	1,516
Fund 510				
Decreased Revenue Fund 510	0	(793)	(910)	(1,014)
Net General Fund Fiscal Impact	\$0	\$1,700	\$881	(\$21)

Recommendation

The Governor recommends changes in facilities funding to make deferred maintenance funding available to all districts and to correct an inequity in the calculation of maximum effort tax rates.

The Governor recommends the following changes in facilities funding:

1. Beginning in FY 2007, permit school districts not eligible to participate in the alternative facilities bonding and levy program under MS 123B.59, Subdivision 1, paragraph (a), to make an equalized levy for deferred maintenance. The maximum deferred maintenance revenue for a qualifying district will be \$50 per pupil times the lesser of one or the ratio of the district's average age of building space to 35 years.
2. Beginning with taxes payable in 2006, reduce the maximum effort debt service tax rate from 40% to 32% for districts granted a capital loan after January 1, 2002, and from 32% to 28% for districts granted a capital loan before January 2, 2002.

Background

1. Provide deferred maintenance revenue for districts not eligible for the alternative bonding and levy program.

Under current law, 21 large districts are able to levy or issue bonds for deferred maintenance projects approved by the commissioner without voter approval under the alternative bonding and levy program, while other districts must receive voter approval to levy for these projects. For FY 2006, the state average alternative facilities bonding and revenue for the 21 large districts is \$413 per pupil. Deferred maintenance needs in the districts not qualifying for the alternative bonding and levy program are comparable to, and in some cases greater than, those of districts qualifying for the program. Providing limited deferred maintenance revenue to districts not qualifying for the alternative bonding and levy program will begin to level the playing field and help ensure that all pupils in the state are educated in well-maintained facilities.

2. Reduce maximum effort tax rates.

When maximum effort tax rates were recalculated to adjust for the impact of the 2001 property tax reforms, the adjustment was made using the state average ratio of ANTC based on the 2000 class rates to ANTC based on the 2001 class rates. This methodology overstated the actual changes in ANTC in capital loan districts, where there is a relatively low concentration of properties that received the greatest rate reductions (e.g., commercial/industrial, apartments). This significantly increased the burden of the maximum effort levy. Adjusting the maximum effort tax rates to reflect a calculation based on data for the median capital loan district rather than the state average for all districts will result in a more fair tax burden in capital loan districts and will reduce the state total debt service equalization aid by \$683,000 in FY 2006-07.

DEPARTMENT OF EDUCATION

Program: FACILITIES & TECHNOLOGY

Change Item: Facilities Funding Changes

Relationship to Base Budget

For FY 2007, the proposed reduction in the debt service equalization appropriation is approximately 3%. Deferred Maintenance is a new appropriation.

Key Measures

All districts in the state will have access to deferred maintenance revenue and tax burdens will be more equitable for maximum effort districts.

Statutory Changes: Amend M.S. 126C.63, Subd. 5 and 8, to reduce maximum effort debt service tax rates. Add a new section for deferred maintenance levy and aid.

DEPARTMENT OF EDUCATION**Program: FACILITIES & TECHNOLOGY****Change Item: Equity in Telecommunications Access in MN Schools**

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$4,500	\$4,600	\$4,700	\$4,700
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$4,500	\$4,600	\$4,700	\$4,700

Recommendation

The Governor recommends that telecommunications access aid be provided for K-12 schools to ensure equitable access throughout the state by assisting with the costs of telecommunications access, Internet connectivity, and video connectivity needed for distance learning.

The Equity in Telecommunications Access (ETA) program will be established beginning in FY 2006. Funding will provide reimbursement for expenditures during the previous fiscal year. For FY 2006, a school district or charter school's aid under this program will equal 90% of approved FY 2005 expenditures adjusted for federal E-rate discounts exceeding \$15 per FY 2005 pupil unit. Beginning in FY 2007, the per pupil threshold will be increased to \$18 to adjust for the conversion from adjusted marginal cost pupil units to unweighted current year pupils. As with previous telecommunication access programs, comparable funding will be provided for telecommunication access in nonpublic schools. The aid will assist K-12 schools with the costs of telecommunications access, Internet connectivity, and video connectivity for distance learning. The proposed aid distribution will help improve equitable telecommunications access throughout the state by targeting state support to schools where the need is greatest; i.e., cost per pupil unit is the highest and would maintain incentives for cost-effectiveness through state-local cost sharing.

Background

Funding for telecommunications access is critical for rural schools, situated many miles away from information resources or other education facilities, and for metropolitan schools, who face the challenge of maintaining robust Internet access for large populations of students. Telecommunications connections are used by school districts to

- ◆ deliver instruction;
- ◆ operate administrative systems essential for school management;
- ◆ transmit required reporting information to the state;
- ◆ participate in on-line learning and on-line testing programs;
- ◆ receive services supporting compliance with No Child Left Behind (NCLB); and
- ◆ access information from libraries, including on-line collections such as the Electronic Library of Minnesota (ELM) and other on-line information and curriculum resources.

Internet access has become critical to the delivery of educational services and school administration. School districts, both rural and those in metropolitan areas, are currently struggling to maintain Internet access and distance learning capacity using a combination of federal E-rate telecommunications discounts and local resources. In addition, the need for increased Internet capacity is growing as expanded on-line educational opportunities require greater bandwidth for delivery.

Rural school districts face higher costs as a result of their distance from telecommunications providers. The current disparity in resources for telecommunications access results in serious equity issues for rural schools who are attempting to provide quality education and equal education opportunities for students. Rural schools with lower student enrollments generate less revenue to deliver K-12 services to their communities. Their students are at a distinct disadvantage when it comes to access to information resources and educational opportunities, especially college preparatory and specialized courses. These courses often can only be delivered via the Internet due to small student enrollments.

Likewise, metropolitan districts are faced with the challenge of maintaining capacity to sufficiently support large populations of students. While rates for telecommunications service within metropolitan areas can be lower, the bandwidth necessary to maintain core Internet resources for large student populations creates an exponential increase in the cost burden for metropolitan school districts.

Relationship to Base Budget

This initiative proposes new spending of \$4.5 million in FY 2006, \$4.6 million in FY 2007, \$4.7 million in FY 2008, and \$4.7 million in FY 2009.

Key Measures

- ⇒ On-line learning, on-line testing, and the ELM will be more effective with better telecommunications access.
- ⇒ Data provided by school districts to the Department via web-based reporting mechanisms for policy and decision-making, and for meeting federal requirements will be more readily available.
- ⇒ Internet and e-mail communications used by districts, communities, and others will be more widely available with sufficient telecommunications infrastructure in our schools.

Statutory Change: New statutory language required.

DEPARTMENT OF EDUCATION

Program: LIBRARY PROGRAMS

Change Item: Electronic Library of MN – Statewide Database Licensing

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$639	\$691	\$740	\$800
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$639	\$691	\$740	\$800

Recommendation

The Governor recommends increasing state funding for support of Electronic Library of Minnesota (ELM) statewide database licensing to replace federal library funding that has been redirected under federal regulations.

Background

The state currently provides base support of \$400,000 for ELM to meet the information, research, and educational needs of the K-12 education community and Minnesota citizens. ELM has been subsidized with federal Library Services and Technology Act (LSTA) funds. The federal Institute of Museum and Library Services (IMLS) has instructed Minnesota's state library agency that LSTA funds may not be used for ongoing operational costs and Minnesota must make plans for the sustainability of state level operations using state funds. The current level of federal funding used for ELM is \$638,540. Equivalent state resources are needed to replace the federal funding used for ELM and meet the additional demands of ELM customers.

The ELM is a critical suite of information databases that provide students, parents, teachers, and the general public with access to thousands of full text, on-line publications. Materials available electronically on ELM include academic journals, trade, and other publications covering the topics of biology, chemistry, education, engineering, humanities, physics, psychology, religion and theology, sociology, and all disciplines of business. In addition, ELM provides on-line access to over 13,000 electronic books, over 250 full-text newspapers, and Spanish language reference and magazine resources.

Critical databases were lost in recent contract negotiations due to lack of funds to support their continuation. In addition, a statewide purchase of these databases ensures leveraging the best price for the products as well as providing availability to all citizens throughout the state via school library media centers, the public, and academic libraries. Funding ELM as a statewide resource is an efficient, economical way to provide a valuable service to citizens from early education through higher education as well as the business community. It also helps public libraries to support K-12 schools during after-school hours with identical resources to support curriculum. State funding for ELM helps to relieve the strain on individual school district budgets since the resources available on ELM reduce the need for school districts to obtain individual subscriptions to periodicals and newspapers.

Relationship to Base Budget

The current annual base for this program is \$400,000. This initiative would increase the base from \$400,000 to \$1,038,540 for FY 2006, from \$400,000 to \$1,090,500 for FY 2007, from \$400,000 to \$1,140,000 for FY 2008, and from \$400,000 to \$1,200,000 for FY 2009.

DEPARTMENT OF EDUCATION

Program: **EARLY CHILDHOOD FAMILY SUPPORT**

Change Item: **Early Childhood Health & Development Screening Modifications**

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$323	\$752	\$716	\$690
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$323	\$752	\$716	\$690

Recommendation

The Governor recommends setting variable reimbursement rates for the early childhood health and development screening program to provide an incentive for school districts to screen children at age three, increasing the likelihood that children who need services will get timely help, and be ready for kindergarten. The Governor also recommends that all pre-kindergarten children be assigned a student identification number at the time they are screened to ensure that all children receive screening before enrolling in kindergarten at a public school, as mandated by law.

Background

Statutes require that a child must not be enrolled in kindergarten in a public school unless the parent submits evidence of the child's screening and the results of the screening no later than 30 days after the first day of attendance. Most children are screened at age four. Required screening components include:

- ◆ vision;
- ◆ hearing;
- ◆ height;
- ◆ weight;
- ◆ development;
- ◆ immunization review;
- ◆ identification of risk factors that may interfere with learning; and
- ◆ summary interview with parents.

School districts report summary counts of the number of children screened each year to the state, and receive state aid of \$40 for every child screened, regardless of age. If the state reimbursement is not sufficient, current statutes allow districts to make transfers from the general fund. Districts report average screening costs of \$60 to \$65 per child.

Student identification numbers are only assigned to preschool age children who receive special education services.

This recommendation will make the following two changes to the current program to achieve stated goals.

- ⇒ Set variable reimbursement rates to provide an incentive to districts to screen children at an earlier age. The rate would be increased to \$50 per child for age three, maintained at \$40 for ages two and four, and reduced to \$30 for children age five and older.
- ⇒ Assign an identification number to all children at the time of screening to ensure state and district accountability; assist with Minnesota's child find efforts; and improve documentation of educational outcomes.

Relationship to Base Budget

For FY 2007, the increase in appropriation is approximately 28%. The increase in program costs will peak in FY 2007 as districts screen more three year olds, then begin to taper as the number of four and five year olds who require screening falls. The cost assumes that some five year olds will continue to receive screening at or shortly before kindergarten entrance.

DEPARTMENT OF EDUCATION

Program: EARLY CHILDHOOD FAMILY SUPPORT

Change Item: Early Childhood Health & Development Screening
Modifications

Key Measures

The percentage of children in a kindergarten cohort receiving early childhood health and developmental screening at age three will increase.

Alternatives Considered

Increase the reimbursement rate at age three, without decreasing the reimbursement rate for children screened at age five or kindergarten entrance.

Statutory Change: Minnesota Statutes 121A.19.

DEPARTMENT OF EDUCATION

Program: EARLY CHILDHOOD FAMILY SUPPORT

Change Item: School Readiness Program Changes

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures – Agency	\$164	\$200	\$200	\$200
Expenditures – State Aid	(164)	(200)	(200)	(200)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$0	\$0	\$0	\$0

Recommendation

The Governor recommends refocusing the school readiness program on the development and assessment of academic skills to prepare four and five year old children for kindergarten as well as strengthening program oversight and accountability.

Background

The current school readiness program provides grants to school districts for pre-kindergarten child development programs. The program's goal is to promote future success in school, but the statutory requirements of the program are broad, with no accountability for measuring the program's impact on participants' school readiness.

The Governor's proposal phases in new program requirements focused on academic preparation for kindergarten beginning in FY 2007, with all districts required to meet the new standards to receive state aid by FY 2009. Districts would be required to submit a biennial plan for commissioner's approval with evidence that the district:

- ⇒ Has adopted and implemented the Minnesota Department of Education's (MDE's) early learning standards and uses a comprehensive pre-kindergarten curriculum based on early childhood research and professional practice.
- ⇒ Conducts a child development assessment on each child at program entry and completion.

Districts may continue to contract with community providers to provide the school readiness program, as permitted under current law.

School readiness grants in FY 2005 range from less than \$1,000 to nearly \$1 million, with an average grant amount of approximately \$27,000. Several districts' pre-kindergarten programs have already begun to implement the MDE early learning standards.

Relationship to Base Budget

This proposal adds two full-time equivalent (FTE) staff and a .25 FTE supervisory position, at a cost, including incidental administrative expenses, of \$164,000 in the first year, and \$200,000 in succeeding years. The appropriation for school readiness is decreased by the same amounts. The FY 2006 change equals 1.8% of the forecast base; the FY 2007 change equals 2.2% of the forecast base.

Key Measures

- ⇒ The number of school district and contract-provided school readiness programs that have adopted and implemented MDE's early learning standards.
- ⇒ The number of school readiness programs that use a comprehensive pre-kindergarten curriculum based on early childhood research and professional practice.
- ⇒ The number of participating children that demonstrate progress in kindergarten readiness from their initial assessment at program entrance to their assessment upon completing a school readiness program.

Statutory Change: Minnesota Statutes sections 124D.15 and 124D.16.

DEPARTMENT OF EDUCATION**Program: SELF SUFFICIENCY LIFELONG LRNG****Change Item: Intensive English Instruction for New Adult Refugees**

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$1,000	\$1,000	\$0	\$0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$1,000	\$1,000	\$0	\$0

Recommendation

The Governor recommends an intensive two-year English language instruction program for new adult refugees through the state Adult Basic Education (ABE) system.

Background

Large numbers of adult refugees are arriving in Minnesota. At present, the ABE delivery system is unable to add new ESL (English as a Second Language) classes due to existing waiting lists for ESL services in metro area ABE programs. Without intensive English instruction for these new Minnesotans, it is unlikely that individuals and families will become self-sufficient in the short term and they will continue to be dependent on other public welfare services and resources. At a cost of about \$1,000 per ESL student per year, current ABE providers could provide access to intensive ESL services (20+ hours per week) to 1,000 additional students per year. This effort would be similar to the three-year *Intensive ESL TANF (Temporary Assistance for Needy Families) Program* that was funded by the 2000 legislature. New federal resources to assist the refugee resettlement effort have not included English instruction.

Relationship to Base Budget

The cost of this program is \$1 million in FY 2006 and \$1 million in FY 2007.

Key Measures

More adult refugees would gain English language skills necessary for self-sufficiency.

Statutory Change: New statutory language is required.

DEPARTMENT OF EDUCATION

Program: SELF SUFFICIENCY LIFELONG LRNG

Change Item: Reallocation of Capped ABE Funds

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$127	\$123	\$92	\$69
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$127	\$123	\$92	\$69

Recommendation

The Governor recommends reallocating the excess portion of Adult Basic Education (ABE) state aid that results a cap on the reimbursement per learner contact hour and from a requirement that aid not exceed program expenditures for the year.

Background

Under ABE law, M.S. 124D.531, programs may not receive more than \$21 per prior year learner contact hour. In FY 2004, eight programs were capped under this mandated ABE allocation formula, which resulted in \$405,000 being returned to the state general fund. Beginning in FY 2006, the savings from this cap and from any aid reductions due to the requirement that aid not exceed program expenditures will be added to total ABE funding for the subsequent fiscal year. The projected reductions under this provision are \$154,000 for FY 2005, \$116,000 for FY 2006, \$87,000 for FY 2007, and \$65,000 for FY 2008. The 51 other ABE programs averaged \$8.00 per contact and some had waiting lists for services. This would ensure that the funding appropriated by the legislature for ABE would remain available for ABE purposes. The impact to non-capped ABE programs would be to slightly increase each program's contact hour rate.

Relationship to Base Budget

The proposed increase is 0.4% of the base budget for FY 2006 and 0.3% of the base budget for FY 2007.

Key Measures

- ⇒ Increase in number of students served.
- ⇒ More services would be provided in programs with greatest need.

Statutory Change: Amend M.S. 124D.531, Subd. 1 and 4.

DEPARTMENT OF EDUCATION

Change Item: Administrative Reduction

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$1,225)	(\$1,225)	(\$1,225)	(\$1,225)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$1,225)	(\$1,225)	(\$1,225)	(\$1,225)

Recommendation

The Governor recommends \$67.1 million for the Department of Education's administrative budget in FY 2006-07, \$46 million for agency operating costs, and \$18.0 million for statewide testing support.

Background

This is a total biennial reduction of \$4.6 million when included with reductions to grant programs recommended in a separate change item. The Governor expects that the department will continue to focus on its mission of improving K-12 education in Minnesota as it implements these administrative reductions in service areas. Additionally, the Governor intends to provide as much flexibility as possible to the agency for implementation of these reductions.

Relationship to Base Budget

This change and the proposed grant changes reflect a reduction of approximately 10% of the agency's FY 2006-07 base budget.

DEPARTMENT OF EDUCATION

Change Item: Grant Reduction

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$1,075)	(\$1,075)	(\$1,075)	(\$1,075)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$1,075)	(\$1,075)	(\$1,075)	(\$1,075)

Recommendation

The Governor recommends elimination of funding from the Department of Education administrative budget for best practice seminars (\$1 million/year) and a grant to provide state agency libraries participation in the integrated library system, Project for Automated Library Systems (\$75,000/year).

Background

Best practices grants are competitive grants awarded to school districts and other education organizations to provide professional development. The grant for state agency library participation provides funds to Minnesota State Colleges and Universities (MNSCU) for 10 agency libraries to participate in the Project for Automated Library Services (PALS).

Relationship to Base Budget

This change and the proposed agency budget changes reflect a reduction of approximately 10% of the agency's FY 2006-07 base budget.

DEPARTMENT OF EDUCATION

Change Item: Statewide Assessments: Develop Interactive Science Test

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$1,200	\$1,200	\$0	\$0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$1,200	\$1,200	\$0	\$0

Recommendation

The Governor recommends \$1.2 million in FY 2006 and \$1.2 million in FY 2007 to develop a computer-based, interactive statewide science assessment that will be administered in grades 5, 8, and in high school after the completion of biology.

Background

In January 2002, Congress reauthorized the Elementary and Secondary Education Act (ESEA), otherwise known as *No Child Left Behind*. The federal law requires states to implement annual tests in grades 3-8 in reading and math, high school tests in reading and math, and one science test each within elementary, middle, and high school grade spans. The new tests, called the Minnesota Comprehensive Assessments-II (MCA-II), will be aligned to the new Minnesota Academic Standards in reading, math, and science.

Before *No Child Left Behind* was enacted, the state administered tests for grade 3, 5, and 7 and high school tests in reading and math in grades 10 and 11 that were aligned to the Profiles of Learning. In 2003, the Governor recommended and the legislature repealed the Profiles and adopted new, grade-specific standards in reading and math called the Minnesota Academic Standards. Additionally, in 2004, the Governor recommended and the legislature adopted new academic standards in science and social studies.

The MCA-II tests for reading and math in grades 3-8 will be fully operational and aligned to the Minnesota Academic Standards beginning with the 2005-06 school year. The science assessment, a new state test, will take approximately three years to become fully operational and will be administered starting in the 2007-08 school year.

The proposal calls for the science test to be computer-based, instructive, and interactive upon the first administration of the test. Developing these types of tests initially requires additional state funds due to the expense of developing an interactive assessment. It is expected that the development costs will be a one-time appropriation.

Relationship to Base Budget

This recommendation is an addition to the current appropriation for the statewide assessment program. The state currently appropriates \$9 million per year for statewide assessments.

Key Measures

Statewide science assessments for students will be administered starting in FY 2008.

Alternatives Considered

The Minnesota Department of Education (MDE) considered seeking private grant funds for development of the science assessment. However, due to timing and compliance issues under *No Child Left Behind*, there was not enough time to seek the funding and remain in compliance with the federal requirement.

Statutory Change: None required; statewide assessment statute is Minn. Stat. 120B.30.

DEPARTMENT OF EDUCATION

Change Item: Alternative Teacher Preparation/Licensing Program

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$0	\$500	\$500	\$500
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$0	\$500	\$500	\$500

Recommendation

The Governor recommends \$500,000 each year beginning in FY 2007 to establish a teacher-training program for qualified professionals. The program will establish partnerships with teacher preparation programs in order to establish alternative preparation programs leading to a standard entrance license for mid-career professionals to enter the teaching profession in high need subject areas.

Background

This recommendation will provide additional teachers in selected subject areas experiencing teacher shortages. Entrance licenses will be available in selected high need areas such as math, science (chemistry, physics, biology, earth science), world languages, ELL/ESL (English language learner/English as a second language), and special education. These alternative preparation programs will provide a means for qualified professionals currently employed in other fields to attain licensure as a teacher in high need subject areas.

The teacher preparation program will be developed and offered by teacher preparation institutions and approved by the commissioner of the Minnesota Department of Education based on criteria developed by an appointed advisory group that will include a representative from the Board of Teaching, school superintendents, and representatives from post-secondary institutions. The one-year teacher-training program will include:

- ◆ summer preparation program prior to the beginning of the school year;
- ◆ 200 clock hours of instruction in curriculum, instruction, and classroom management presented after school, on weekends, or both;
- ◆ on the job mentoring and support by an experienced teacher;
- ◆ three evaluations throughout the school year and prior to completion of the program by a team including the mentor, the principal, and a college program representative; and
- ◆ a one-week intensive workshop at the close of the school year that includes analysis and reflection on the first year of teaching.

To qualify for participation in the alternative programs, the applicant must:

- ◆ have a bachelor’s degree from an accredited four-year post-secondary institution;
- ◆ have an undergraduate major or post-baccalaureate degree in the subject to be taught; or have equivalent academic qualifications in the subject area in which the applicant is seeking licensure;
- ◆ pass an examination of skills in reading, writing, and mathematics as required by M.S. 122A.18 and the Praxis II content exam under M.S. 122A.09;
- ◆ have a cumulative grade point average of 2.75 or higher on a 4.0 scale for bachelor’s degree;
- ◆ have employment experience related to the subject area to be taught; and
- ◆ provide evidence of being hired as a teacher as a condition of participating in the alternative teacher preparation program.

Prior to entering the classroom, participants meeting the above requirements will receive a one-year eligibility license, which allows the candidate to be employed. During the school year, the participant completes 200 hours of formal instruction which can lead to teacher licensure only or can result in teacher licensure and 15 credits that will roll into a masters program, allowing the newly licensed teacher higher placement on the teacher salary schedule. The Board of Teaching will issue licenses to candidates receiving a positive recommendation from the evaluation team at the end of the education program and the school year.

Key Measures

Measure the number of candidates by category of high subject area need who:

- ◆ enter the program,
- ◆ receive eligibility licensure,
- ◆ qualify for standard entrance licensure, and
- ◆ join the teaching force.

Statutory Change: Add new code in M.S. 122A.

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$300	\$1,600	\$1,600	\$1,600
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$300	\$1,600	\$1,600	\$1,600

Recommendation

The Governor recommends that the commissioner develop a value-added assessment program to assist public schools in evaluating and reporting student growth in academic achievement under Minnesota Statutes, Section 120B.30, Subdivision 1a. The program will use assessments of student achievement to make longitudinal comparisons of each student's academic growth over time.

Background

In general, value-added models are a class of statistical procedures that use longitudinal test score data, i.e. data collected over a period of time, to measure the change in a student's performance during a specific period of time. Value-added models can measure how a student's performance is growing toward a targeted outcome, such as the proficient standard on a state test. A value-added model focuses on the achievement growth of individual students in terms of subject-matter proficiency. Under a value-added model, the growth rate toward proficiency can serve as a tool for targeting remedial assistance to students. The model can also form the basis for important state education reforms.

Better evaluation of policies and programs. Because the value-added model measures and projects how each individual student is progressing toward proficiency, it can be used to evaluate whether a student's exposure to a particular education program or affected that progress.

Promotion of better instruction. By measuring student achievement gains under individual teachers who may be using similar or different teaching methodologies, the value-added model can inform lawmakers, education officials, teachers, and the public about which instructional practices are best able to move students toward subject-matter proficiency.

Better measurement of teacher effectiveness. Since the value-added model focuses on student achievement growth toward subject-matter proficiency, it can help identify schools that raise student achievement and those that do not. Based on this identification, incentives can be given to effective teachers to teach in classrooms with low-performing students and compensation systems can be crafted based on teacher effectiveness.

This initiative would require that the commissioner of the Minnesota Department of Education implement a value-added assessment program to assist school districts, public schools, and charter schools in assessing and reporting students' growth in academic achievement under M.S. 120B.30, Subdivision 1a. The program would use assessments of students' academic achievement to make longitudinal comparisons of each student's academic growth over time. School districts, public schools, and charter schools would apply to the commissioner to participate in the program. The commissioner would select program participants from urban, suburban, and rural areas throughout the state. Up to 125,000 students would participate in the first year of the program. Statewide implementation will occur in FY 2007.

The initiative would allow the commissioner the option to issue a Request for Proposal (RFP) and contract with an organization that provides a value-added assessment model that reliably estimates school and school district effects on students' academic achievement over time. The model selected must accommodate diverse data from various test sources and must use each student's test data across grades and subjects. The tracking of students over time requires the development of a student information system to aid the value added model.

This program requires additional reporting and computation to determine multi-year student performance data. Anticipated implementation cost is estimated at approximately \$2 per student. The data management requirements to track students on year-to-year basis are estimated at an additional \$1 per student per year.

Relationship to Base Budget

The cost of this program will be \$300,000 in FY 2006, \$1.6 million in FY 2007, \$1.6 million in FY 2008, and \$1.6 million in FY 2009.

Key Measures

School districts will be provided with a value-added assessment model to better assess the school and school district efforts on student achievement over time.

Statutory Change: Amend M.S. 13.321 by adding a new subdivision, create new language under M.S. 120B.30.

DEPARTMENT OF EDUCATION

Change Item: Rulemaking Authority for Board of School Administrators

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$20	\$0	\$0	\$0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$20	\$0	\$0	\$0

Recommendation

The Governor recommends granting the Board of School Administrators (BOSA) rulemaking authority under the 2001 legislation that created the board and providing an appropriation of \$20,000 to complete the task. The board will make technical changes, clarifications, and corrections to MN Rule 3512 (School Administrator Rules).

Background

The board's actions created MN Rule 3512.5300 Variance, in Sept. 2002. The rulemaking authority has lapsed.

The board was created by the 2001 legislature without an order to the Revisor of Statutes for language cleanup. Essential language changes needed are the references for authority to "Children, Families and Learning" and "Commissioner." These former references continue to cause confusion for personnel licensing, Minnesota colleges and universities with approved educational administration preparation programs, school administrators, and the public.

To provide clear understanding of the rule, to eliminate and expedite processes for the issuing of licensures, and to enhance enforcement of the Code of Ethics for Minnesota School Administrators, clarity of language is needed. A task force formed in 2002 completed preliminary analysis of changes required in the rule. The board will seek collaborative input from education organizations through the rulemaking process.

The following is a listing of most of MN Rule 3512 and a brief description of changes needed:

- 3512.0100 **Definitions.** Some definitions need to be added.
- 3512.0200 **Education and experience requirements.** Delete portions of subp. 2, clarify subp. 5
- 3512.0300 **School superintendents and principals.** Subp. 5 add definitions.
- 3512.0500 **Program requirements for K-12 principals.** Review competencies for any changes needed.
- 3512.0600 **Program requirements for superintendents.** Review competencies for any changes needed.
- 3512.0700 **Administrative licensure without teaching experience.** Add definition.
- 3512.1100 **Superintendents competencies.** Review competencies for any changes needed.
- 3512.1300 **Procedures for voluntary surrender of licenses.** Minor language changes to reflect current law.
- 3512.1400 **Suspension and revocation of licenses.** Minor language changes to reflect current law.
- 3512.1500 **The issuance and renewal of licenses.** Slight language changes.
- 3512.1700 **Appeals.** Minor language changes.
- 3512.2000 **Requirements for issuance and renewal of licenses.** Insert correct references.
- 3512.2400 **Suspension and revocation of licenses.** Minor language changes to reflect current law.
- 3512.2500 **Procedures for approval of licensure programs.** Change to a five year review or on appeal.
- 3512.2600 **Licensure of persons prepared in states other than Minnesota.** Delete language in paragraph 1b.
- 3512.5200 **Code of ethics for school administrators.** Update to current legal references.

Relationship to Base Budget

The state cost of this proposal is \$20,000 in FY 2006 only.

Key Measures

Rule changes and clarifications will improve communications and understanding, expedite licensure processes, and enhance Code of Ethics enforcement.

Statutory Change: Modify Minnesota Rule 3512.

DEPARTMENT OF EDUCATION**Change Item: Reimbursement of BOSA Teacher Substitutes**

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$0	\$0	\$0	\$0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$0	\$0	\$0	\$0

Recommendation

The Governor recommends authority for the Board of School Administrators (BOSA) to reimburse school districts for substitute teacher costs associated with a teacher serving on BOSA.

Background

The BOSA, created by the 2001 legislature in M.S. 122A.12, requires a member who is a teacher. The board has no authority to reimburse a school district for the cost of a substitute teacher when the required teacher member is absent from the classroom for board meetings. This is a barrier to teacher participation, as the teacher's employing district incurs additional cost due to the employee's membership on the board.

Relationship to Base Budget

Cost will be absorbed within the current appropriation for BOSA.

Key Measures

Current law requires a licensed teacher to be on BOSA. This administrative change allowing the board to reimburse school districts for substitute teacher costs will allow BOSA to have a full compliment of board members.

Statutory Change: Amend M.S. 122A.12.

Preliminary Proposal

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	0	0	0	0

Recommendation

The Governor recommends replacing the Basic Skills Test (BST)-Grade 8 test with the Minnesota Comprehensive Assessments-II (MCA-II) Grade 8 test. This change would reduce the number of tests administered in Grade 8.

Background

Replacing the Basic Skills Test

Since 1998, Minnesota has had in place the BST as a graduation requirement. Its purpose is to determine a minimum level of educational competence that all students graduating from Minnesota’s public schools should possess. The BST requires students to possess skills at approximately the 6th grade level in reading and mathematics.

This test is given the first time in 8th grade for reading and math and in 10th grade for written composition. There are a number of retest opportunities for students to pass any part they failed previously. The initial failure rate for reading and math in 8th grade is approximately 30%. Hence, many students participate in the retest opportunities.

The advent of No Child Left Behind (NCLB) and an increasing demand for accountability has led to the development of reading and mathematics tests for all students in grades 3 through 8, as well as, grades 10 and 11. The MCA-IIs are designed to measure the academic standards approved in 2003 by the Minnesota Legislature. Therefore, there will be two tests administered in the 8th grade. Each test is similar in that they measure the same content areas but are quite different in the approach used to build the tests and the inferences that can be drawn from each.

Given the goal that all children in Minnesota’s public schools achieve proficiency in reading and mathematics, the BST and its minimum competency approach will be redundant and obsolete. However, it would still be appropriate for some testing requirement to be met for graduation. It would be prudent, therefore, to use the MCA-II assessment for this purpose. Doing so is not without challenges in terms of policy, logistics, and technical aspects of the tests themselves.

Policy and Logistical Changes

Beginning in 2006, the MCA-II in grade 10 reading and grade 11 math will become operational. It would be appropriate to implement the new graduation requirement for those student who would be in 8th grade, for the first time, beginning with the 2006 administration of the MCA-II reading and mathematics test. In addition, students not meeting the graduation requirement – passing the tests – would be allowed to retest with the appropriate tests at each subsequent spring administration. In addition, retest opportunities would occur in the fall of each subsequent year. There would be six retest opportunities and approximately three school years of remedial instruction in reading and two years in mathematics. In addition, one additional retest opportunity would be afforded seniors in the summer after completion of his or her senior year course work. This retest should occur no later than the end of July of that year.

For students, who will have taken the BST as 8th graders in 2005 and all those students who are in a retest situation, the BST will continue to be administered using intact forms from previous administrations. This will continue until all students in this category have passed the BST or are no longer enrolled in public school.

Technical Considerations

Although 100% proficiency on each of the MCA-II grade and content combinations is the goal, some students may not achieve that goal. In fact, using current MCA results, a very large proportion of students will probably not achieve proficiency on the MCA-II in the first several years. In addition, the level of proficiency is considerably more stringent than the current minimal competency requirement of the BST. Additionally, enabling skill items (10-15) will be placed on the grade 10 reading and the grade 11 mathematics tests. This will help ensure that foundational skills for students are evaluated.

In addition, some consideration must be given as to what level of achievement on the MCA II would be required for graduation. Using test information from the MCA administration of 2004 and the BST administration of 2005, it may be possible to match student scores to analyze the relationship between the two tests. This information will enable a better-informed choice of possible graduation requirements. Once a determination is made for the estimated cut score required for graduation using 2004 and 2005 data, it will be necessary to verify that data in 2006 using a small sample of students who will take a BST form in addition to the MCA-II.

Most likely, a secondary cut score on the 10th grade MCA-II reading and 11th grade mathematics test will be established for graduation purposes. Again, this cut score would establish the basic academic skills required to receive a high school diploma from a Minnesota high school.

Key Measures

All children in Minnesota's public schools achieve proficiency in reading and mathematics.

Alternatives Considered

Make no changes to the current 8th grade basic skills testing requirement.

Statutory Change: Amend M.S. 120B.30, Statewide Testing and Reporting System.

Other Non Cabinet Agencies

	PAGE
Agency Overview	1
Change Summary	2
Change Items	
Agency Change Items	
Special Education Replacement Funding	3

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	10,466	10,466	10,466	10,466	20,932
Recommended	10,466	10,466	10,800	10,953	21,753
Change		0	334	487	821
% Biennial Change from 2004-05					3.9%
 <u>Expenditures by Fund</u>					
Direct Appropriations					
General	10,131	10,730	10,800	10,953	21,753
Statutory Appropriations					
General	583	583	583	583	1,166
Special Revenue	1,572	1,569	1,569	1,569	3,138
Federal	247	236	236	236	472
Miscellaneous Agency	265	275	275	275	550
Gift	27	17	17	17	34
Total	12,825	13,410	13,480	13,633	27,113
 <u>Expenditures by Category</u>					
Total Compensation	10,728	10,984	10,936	10,936	21,872
Other Operating Expenses	1,747	2,083	2,201	2,354	4,555
Capital Outlay & Real Property	57	50	50	50	100
Payments To Individuals	75	68	68	68	136
Other Financial Transactions	218	225	225	225	450
Total	12,825	13,410	13,480	13,633	27,113
 <u>Expenditures by Program</u>					
Resendtl Academies/Deaf&Blind	12,825	13,410	13,480	13,633	27,113
Total	12,825	13,410	13,480	13,633	27,113
 <u>Full-Time Equivalent (FTE)</u>					
	201.1	199.8	194.8	190.8	

MINN STATE ACADEMIES

Change Summary

<i>Dollars in Thousands</i>				
	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	10,466	10,466	10,466	20,932
Subtotal - Forecast Base	10,466	10,466	10,466	20,932
Change Items				
Special Education Replacement Funding	0	334	487	821
Total Governor's Recommendations	10,466	10,800	10,953	21,753
Fund: GENERAL				
Planned Statutory Spending	583	583	583	1,166
Total Governor's Recommendations	583	583	583	1,166
Fund: SPECIAL REVENUE				
Planned Statutory Spending	1,569	1,569	1,569	3,138
Total Governor's Recommendations	1,569	1,569	1,569	3,138
Fund: FEDERAL				
Planned Statutory Spending	236	236	236	472
Total Governor's Recommendations	236	236	236	472
Fund: MISCELLANEOUS AGENCY				
Planned Statutory Spending	275	275	275	550
Total Governor's Recommendations	275	275	275	550
Fund: GIFT				
Planned Statutory Spending	17	17	17	34
Total Governor's Recommendations	17	17	17	34

MINN STATE ACADEMIES

Change Item: Special Education Replacement Funding

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$334	\$487	\$533	\$487
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$334	\$487	\$533	\$487

Recommendation

The Governor recommends a general fund appropriation of \$10.8 million in FY 2006 and \$10.953 million in FY 2007 for the Minnesota State Academy for the Blind and the Minnesota State Academy for the Deaf for the 2006-07 biennium. This level represents an increase of \$334,000 in FY 2006 and \$407,000 in FY 2007.

Background

Preliminary fiscal monitoring done by the Minnesota Department of Education indicates that the mainstreaming contract between Fairbault Public Schools and the Minnesota State Academies is not being executed as designed. Therefore, the preliminary findings indicate that the Fairbault Public Schools may lose a portion of their special education funding and special education excess cost funding. This will have a direct impact on how the Minnesota State Academies provide services to their students. The increase in funding to the Academies will allow them to continue to provide the same services to their students.

The Fairbault Public Schools and the Minnesota State Academies have the opportunity to respond to the preliminary fiscal monitoring findings. As the findings are finalized, changes may be made to the recommendation following the February forecast. Statutory changes may be pursued based on the final outcome.

Relationship to Base Budget

This budget increase reflects a 3.9% increase in the overall state funding of the Academies.

Statutory Changes: pending.

	PAGE
Agency Overview	1
Change Summary	2
Change Items	
Agency Change Items	
Professional Development & Research Group Reduction	3

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	6,864	6,423	6,423	6,423	12,846
Recommended	6,864	6,423	6,255	6,255	12,510
Change		0	(168)	(168)	(336)
% Biennial Change from 2004-05					-5.8%
 <u>Expenditures by Fund</u>					
Direct Appropriations					
General	6,756	7,099	6,255	6,255	12,510
Statutory Appropriations					
Special Revenue	461	1,559	924	474	1,398
Federal	27	27	26	26	52
Miscellaneous Agency	44	105	47	47	94
Gift	663	52	115	15	130
Total	7,951	8,842	7,367	6,817	14,184
 <u>Expenditures by Category</u>					
Total Compensation	4,762	5,071	4,788	4,687	9,475
Other Operating Expenses	2,861	3,433	2,265	1,816	4,081
Capital Outlay & Real Property	10	6	6	6	12
Payments To Individuals	22	36	38	38	76
Local Assistance	264	264	240	240	480
Other Financial Transactions	32	32	30	30	60
Total	7,951	8,842	7,367	6,817	14,184
 <u>Expenditures by Program</u>					
Center For Arts Educ	7,951	8,842	7,367	6,817	14,184
Total	7,951	8,842	7,367	6,817	14,184
 <u>Full-Time Equivalent (FTE)</u>					
	72.9	78.7	69.5	69.5	

<i>Dollars in Thousands</i>				
	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
<i>Fund: GENERAL</i>				
FY 2005 Appropriations	6,423	6,423	6,423	12,846
Subtotal - Forecast Base	6,423	6,423	6,423	12,846
Change Items				
Professional Dev. & Research Reduction	0	(168)	(168)	(336)
Total Governor's Recommendations	6,423	6,255	6,255	12,510
<i>Fund: SPECIAL REVENUE</i>				
Planned Statutory Spending	1,559	924	474	1,398
Total Governor's Recommendations	1,559	924	474	1,398
<i>Fund: FEDERAL</i>				
Planned Statutory Spending	27	26	26	52
Total Governor's Recommendations	27	26	26	52
<i>Fund: MISCELLANEOUS AGENCY</i>				
Planned Statutory Spending	105	47	47	94
Total Governor's Recommendations	105	47	47	94
<i>Fund: GIFT</i>				
Planned Statutory Spending	52	115	15	130
Total Governor's Recommendations	52	115	15	130

PERPICH CENTER FOR ARTS EDUC

Change Item: Professional Development & Research Group Reduction

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$168)	(\$168)	(\$168)	(\$168)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$168)	(\$168)	(\$168)	(\$168)

Recommendation

The Governor recommends \$12.51 million in General Fund support for the Perpich Center for Arts Education (PCAE) in FY 2006-07. This is a biennial reduction of \$336,000 and reflects a 2.6% base reduction. The Governor's recommendation is to specify that the reduction come from PCAE's Professional Development & Research Group (PDR) in order to ensure that funding for the Arts High School is not reduced.

Background

The Perpich Center has three core functions: 1) operate the Arts High School, a tuition-free arts-centered public high school serving 11th and 12th grade students, 2) maintain the PCAE Library, a collection of more than 13,000 arts-related book, video and audio titles, and 3) provide professional development opportunities and curriculum assistance to arts educators statewide.

This reduction will require PCAE to refocus the efforts of its Professional Development & Research Group (PDR) on activities where it can have the greatest impact. This may include more targeted outreach efforts and prioritization of services and partnerships to maximize the use of remaining resources.

The Arts High School and PCAE Library are not affected by this proposal.

Relationship to Base Budget

This reduction results in a \$336,000, or 2.6%, biennial decrease in PCAE's base budget. Depending on how the PCAE Board chooses to implement this change item, it may result in staff reductions and/or fewer grants to local school districts.

Key Measures

Since its inception, PCAE has provided professional development programs to more than 15,000 teachers, artists, students, college faculty, and parents. Through its partnerships, the Center has also helped 231 of Minnesota's 354 school districts complete the Comprehensive Arts Planning Program (CAPP). This proposal will reduce the number of individuals and school districts PCAE can serve each year through grants, workshops and technical assistance.