



K-12 EDUCATION

FINANCE

OVERVIEW

2005-2006

Division of Program Finance

September 2005
(Updated October 2005)

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I. .CONTEXT FOR SCHOOL FINANCE

A. Legal Context

1. Minnesota Constitution, Article 13, Section 1

...it is the duty of the legislature to establish a general and uniform system of public schools. The legislature shall make such provisions by taxation or otherwise as will secure a thorough and efficient system of public schools throughout the state.

2. Minnesota Supreme Court, Skeen v. State of Minnesota, August 20, 1993

...education is a fundamental right in Minnesota. However, the current system of state educational finance satisfies that fundamental right, particularly where all plaintiff districts are provided with an adequate level of education which meets or exceeds the state's basic educational requirements and where the districts are given sufficient funding to meet their basic needs...

...our decision ...requires the state to provide enough funds to ensure that each student receives an adequate education and that funds are distributed in a uniform manner...

...the State of Minnesota provides an adequate and uniform education which meets all state standards. It merely allows localities to augment this basic amount...

...the determination of education finance policy, in the absence of glaring disparities, must be a legislative decision because it involves balancing the competing interests of equality, efficiency, and limited local control...

B. Minnesota Education Finance Terms

1. Fiscal Year

- a. The school district fiscal year runs from July 1 through June 30. FY 2006 begins July 1, 2005 and ends June 30, 2006.
- b. With certain exceptions, the property tax levy certified in 2004 for taxes payable in 2005 is recognized as revenue in FY 2006.

2. Pupil Accounting

- a. Average Daily Membership (ADM) = The average number of pupils enrolled in the school district throughout the school year
$$= \frac{\text{Number of Pupil-Days Enrolled}}{\text{Total Days in School Year}}$$

Beginning in FY 2004, regular ADM is limited to 1.0 for each student. Students served more than full-time in a learning year program generate additional ADM, not to exceed 0.2 ADM per student, which is used only for the calculation of extended time revenue.

- b. Resident Weighted ADM Pupil Units (WADM) = Resident ADM X Pupil Weight

Pupil weights by grade level are as follows:

Pre-K	1.250
K-Disabled	1.000
Regular Kindergarten	.557
Grades 1-3	1.115
Grades 4-6	1.060
Secondary (Grades 7-12)	1.300

- c. Adjusted Pupil Units = Resident WADM
+ WADM of nonresidents attending the district under alternative attendance programs (e.g., open enrollment)
- WADM of residents attending another district under alternative attendance programs

Beginning in FY 2000, most components of general education revenue are computed using Adjusted Marginal Cost Pupil Units (AMCPU). The exception is referendum revenue, which is computed using resident marginal cost pupil units.

- d. AMCPU = Greater of:
Current Year Adjusted Pupil Units or
(.77 X Current Year Adjusted Pupil Units
+.23 X Prior Year Adjusted Pupil Units)

3. Tax Capacity

- a. Net Tax Capacity = Estimated Market Value of Property X Class Rate
- b. Class Rate = Statutory percentage applied to estimated market value to determine tax capacity

Example class rates (Taxes Payable in 2005)

Residential Homestead (and Agricultural Homestead – house, garage and one acre)	
First \$500,000	1.00%
Remainder	1.25%
Remainder of Agricultural Land and Buildings (homestead)	
First \$600,000	0.55%
Over \$600,000	1.00%
Agricultural Land and Buildings (nonhomestead)	1.00%
Commercial and Industrial	
First \$150,000	1.50%
Remainder	2.00%
Seasonal Recreational Residential	
First \$500,000	1.00%
Remainder	1.25%

- c. Sales Ratio =
$$\frac{\text{Estimated Market Value}}{\text{Actual Sales Price}}$$

(Computed by State Revenue Department based on comparison of assessor's estimates of market values with actual sales prices.)

- d. Adjusted Net Tax Capacity =
$$\frac{\text{Net Tax Capacity}}{\text{Sales Ratio}}$$

4. Referendum Market Value

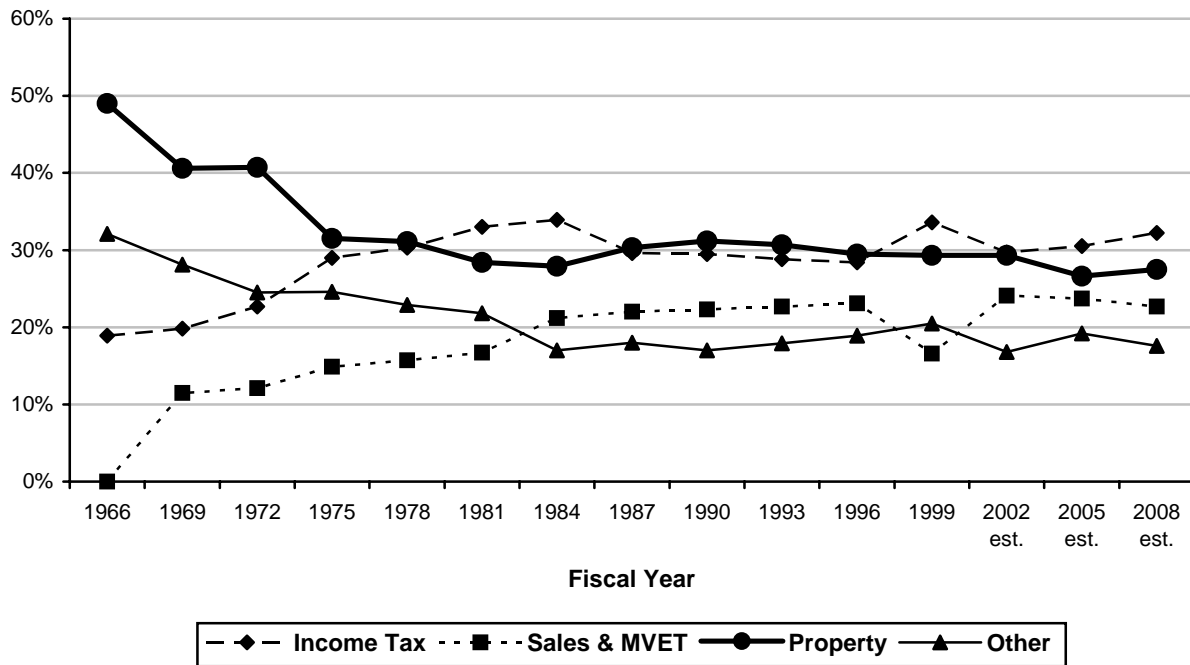
Referendum market value, used only for operating referendum, transition and equity levy calculations, equals the estimated market value of property, excluding the following property classes:

- Agricultural Land and Buildings
(Note: house, garage, and one acre are not exempt)
- Seasonal Recreational Residential

C. Minnesota Public Finance System

1. Combined State and Local Tax Revenues

Minnesota State-Local Tax Revenue: Percent of Total By Major Tax Type



Fiscal Year	Income Tax	Sales & MVET	Property**	Other*
1966	18.9%	0.0%	49.0%	32.1%
1969	19.8%	11.5%	40.6%	28.1%
1972	22.7%	12.1%	40.7%	24.5%
1975	29.0%	14.9%	31.5%	24.6%
1978	30.3%	15.7%	31.1%	22.9%
1981	33.0%	16.7%	28.4%	21.8%
1984	33.9%	21.2%	27.9%	17.0%
1987	29.6%	22.0%	30.3%	18.0%
1990	29.5%	22.3%	31.2%	17.0%
1993	28.8%	22.7%	30.7%	17.9%
1996	28.4%	23.1%	29.5%	18.9%
1999	33.6%	16.6%	29.3%	20.5%
2002 est.	29.7%	24.1%	29.3%	16.8%
2005 est.	30.5%	23.7%	26.6%	19.2%
2008 est.	32.2%	22.7%	27.5%	17.6%

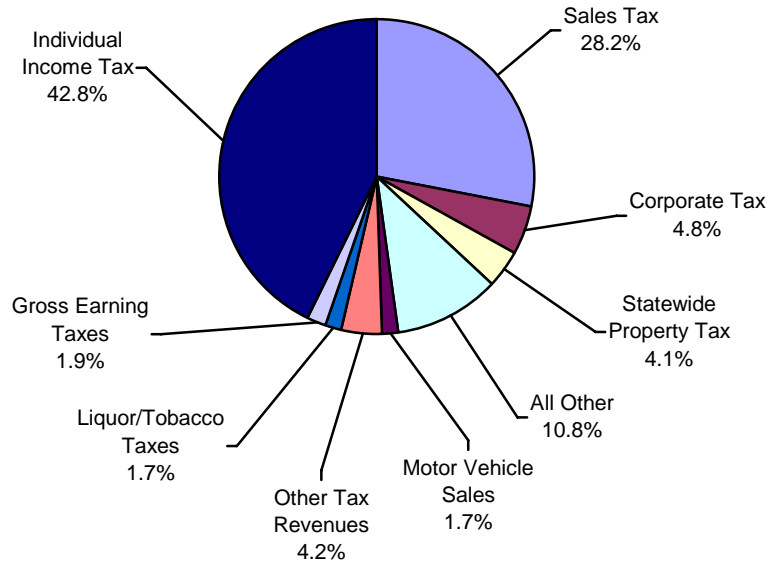
* Other includes taconite production, gross earnings on utility companies, tobacco, liquor, motor fuels, estate, vehicle registration, insurance premiums, etc.

** Before Property Tax Refund

Source: Department of Revenue, Price of Government Data

2. Where the General Fund Dollars Come From – End of 2005 Legislative Sessions

2006-07 Biennium - \$31,589 Million



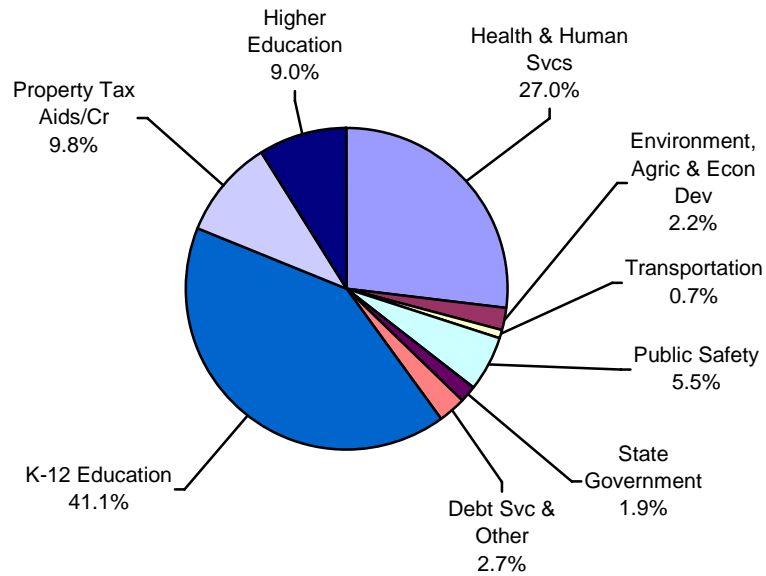
\$ in Millions

Balance Forward 6-30-05	\$ 1,003
Non-Dedicated Revenues:	
Individual Income Tax	13,516
Sales Tax	8,906
Corporate Tax	1,505
Statewide Property Tax	1,291
Motor Vehicle Sales Tax	531
Gross Earnings Taxes	592
Liquor, Wine, Beer Taxes	135
Cigarette and Tobacco Taxes	388
Other Tax Revenues	1,328
All Other Revenues	<u>1,491</u>
Subtotal Non-Dedicated Revenues	29,683
Dedicated Revenue	74
Transfers from Other Funds	759
Prior Year Adjustments	<u>70</u>
SUBTOTAL CURRENT RESOURCES	<u>30,586</u>
TOTAL AVAILABLE RESOURCES – FY 2006-07	\$ 31,589
Less: Estimated Expenditures	30,574
Cash Flow Account	350
Budget Reserve	<u>653</u>
Projected General Fund Balance 6-30-07	
End of 2005 Legislative Sessions	<u>\$ 12</u>

Source: Department of Finance – August 8, 2005

3. Where the General Fund Dollars Go – End of 2005 Legislative Sessions

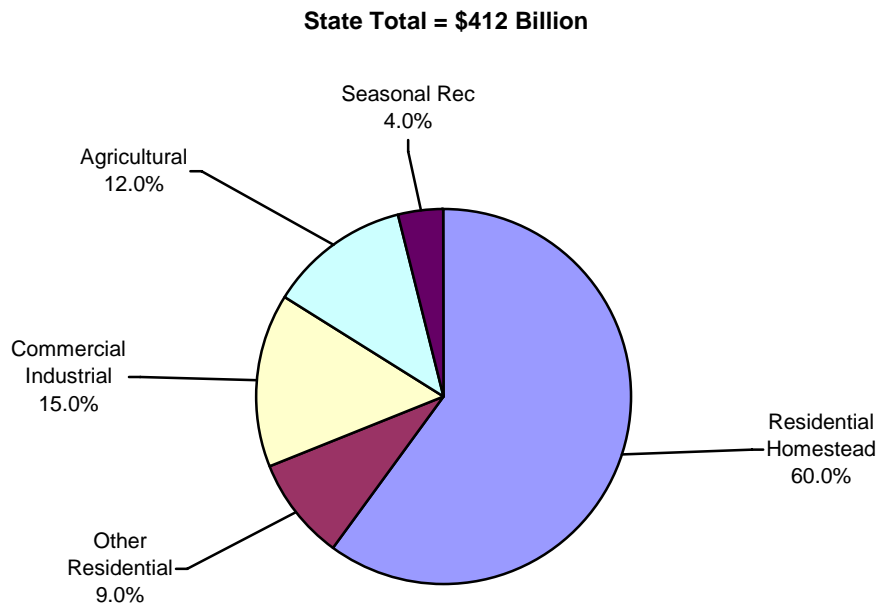
**2006-07 Biennium - \$30,574 Million Spending
\$350 Million Cash Flow Account
\$653 Million Budget Reserve**



	<u>\$ in Millions</u>
Total Available Resources – FY 2006-07	\$ 31,589
Major Spending Items:	
K-12 Education	12,759
Property Tax Recog/Payment Change	(181)
Property Tax Aids & Credits	2,984
Higher Education	2,761
Health & Human Services	8,264
Environment, Agric & Economic Dev	680
Transportation	205
Public Safety	1,685
State Government	584
Debt Service	781
Estimated Cancellations	<u>(23)</u>
Subtotal – Major Spending Items	30,500
Dedicated Expenditures	<u>74</u>
TOTAL ESTIMATED EXPENDITURES – FY 2005-07	\$ 30,574
Cash Flow Account	350
Budget Reserve	<u>653</u>
Projected General Fund Balance 6-30-07 End of 2005 Legislative Sessions	<u><u>\$ 12</u></u>

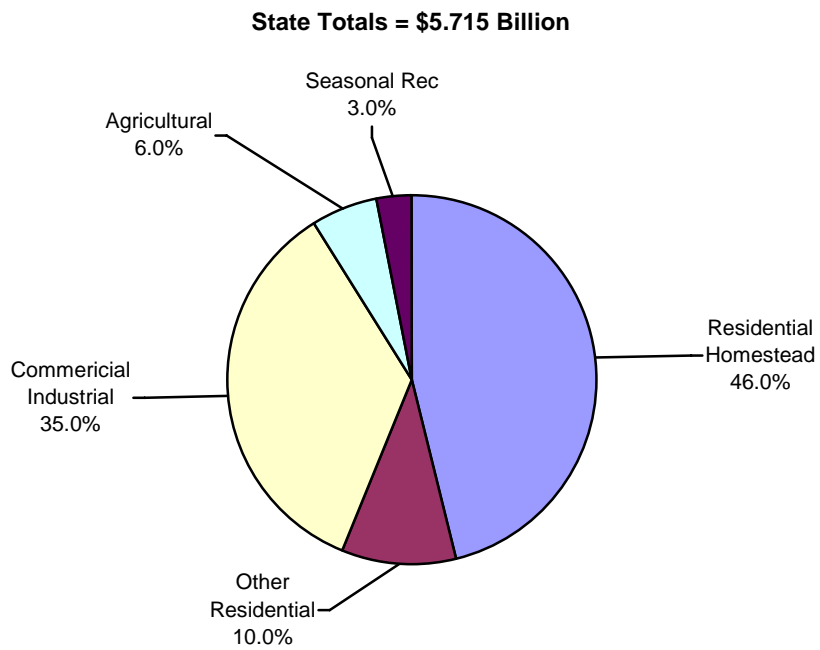
Source: Department of Finance – August 8, 2005

4. Payable 2005 Market Value by Use Class



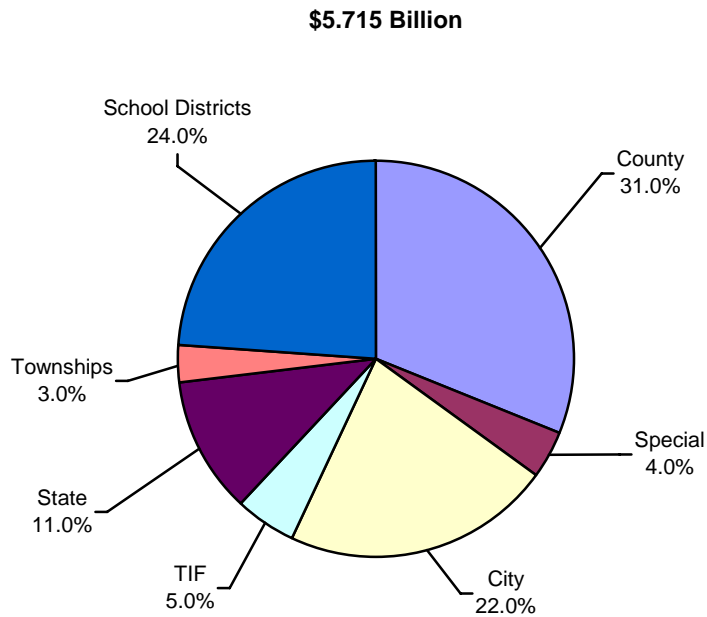
Source: House Research Department

5. Payable 2005 Net Property Tax by Use Class



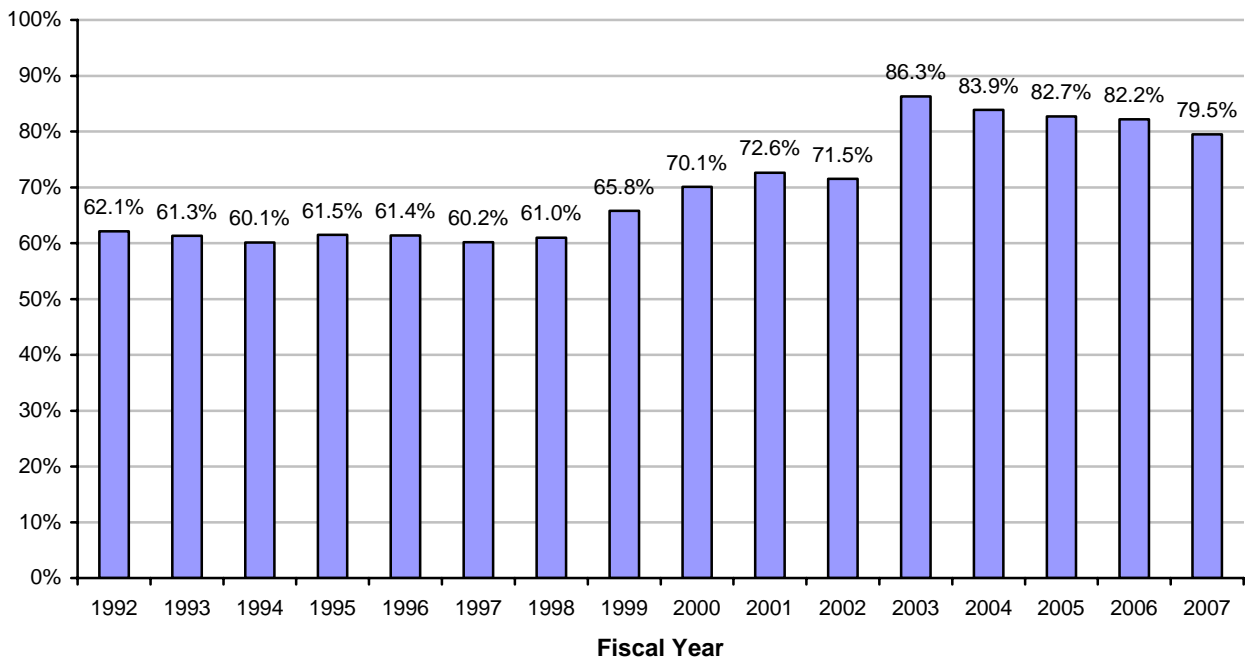
Source: House Research Department

6. Payable 2005 Property Tax Levy by Type of Government After Credits



Source: House Research Department

State Share of State-Local Tax Revenue for K-12 Education



Source: MDE, Price of Government Data, End of 2005 Legislative Sessions

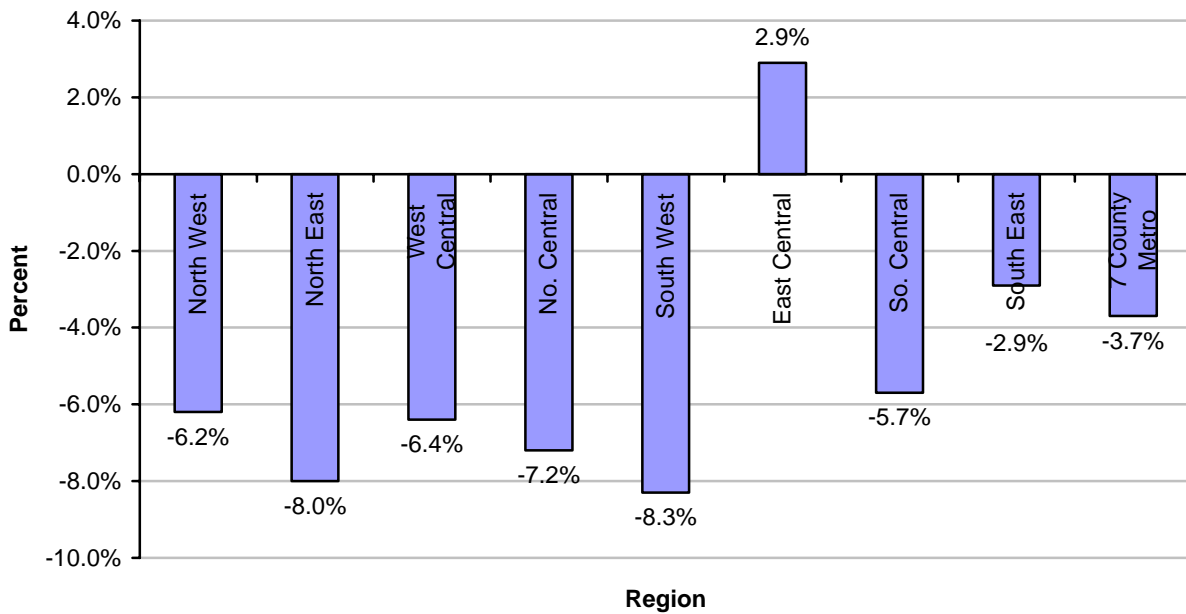
D. Characteristics of School Districts

Number of School Districts by Adjusted 2003-04 Average Daily Membership Group

ADM Group	No. of Districts	Total ADM	% of Total ADM
0-299	42	7,750	1.0%
300-999	137	84,583	10.4%
1,000-2,999	102	168,814	20.8%
3,000-9,999	46	243,169	30.0%
10,000 +	16	306,223	37.8%
Total	343	810,539	100.0%

Source: MDE, FY 2004 Final MARSS Data

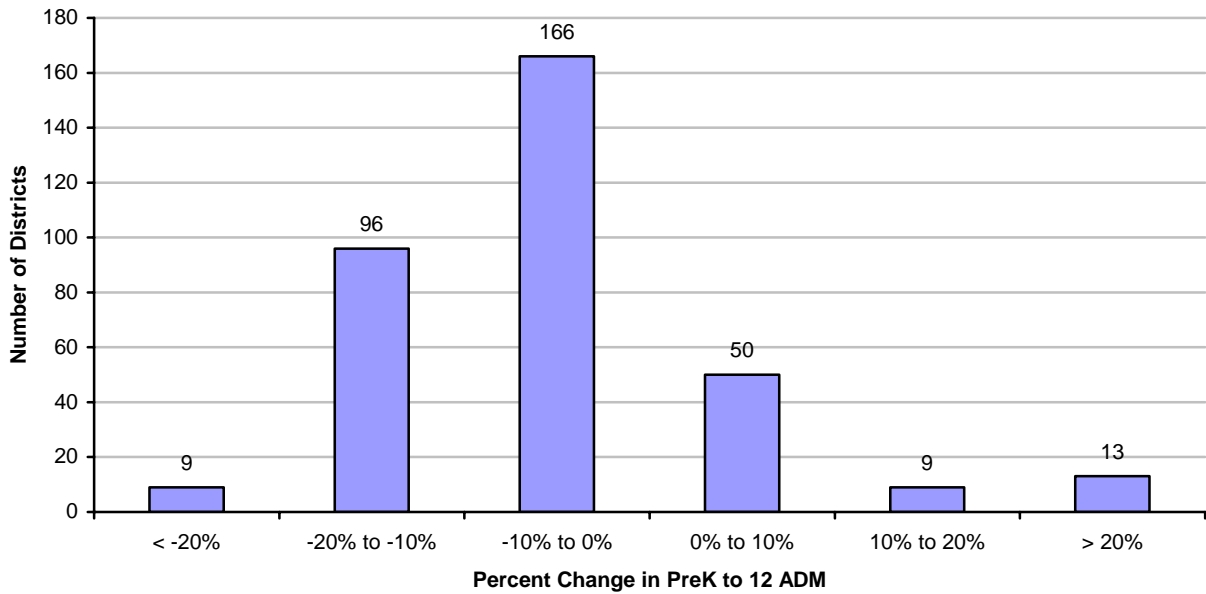
School District Adjusted ADM Percent Change by Region FY 2003 to FY 2007



Source: MDE, Program Finance Division, February 2005 Forecast Data

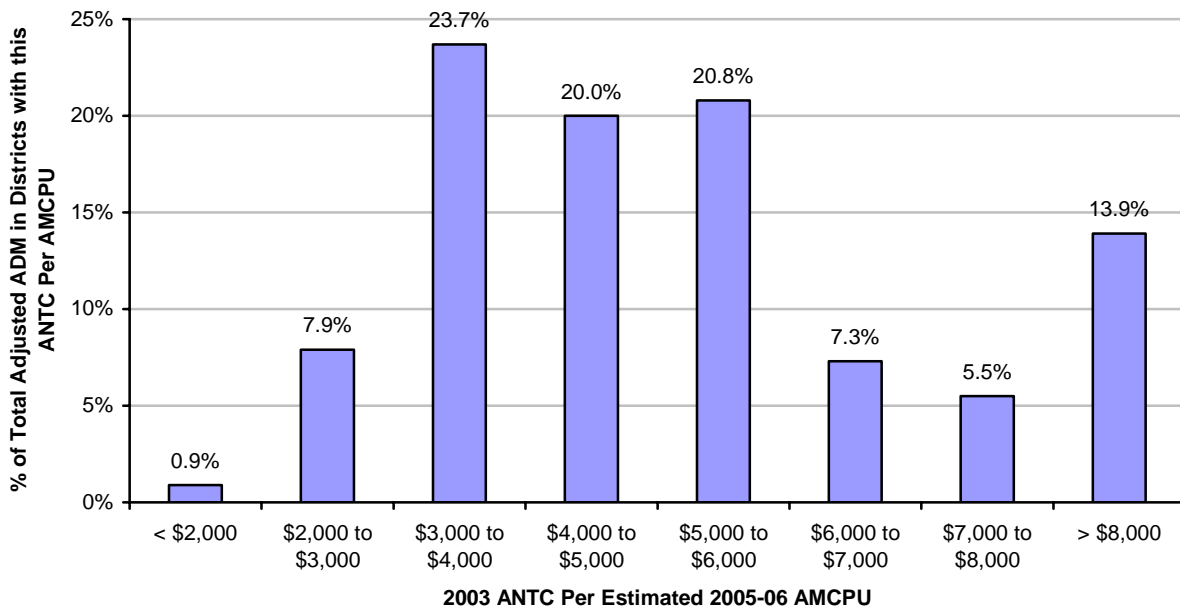
Note: Excludes Charter Schools

**Estimated Percentage Change in PreK - Grade 12 Adjusted ADM
FY 2003 to FY 2007**



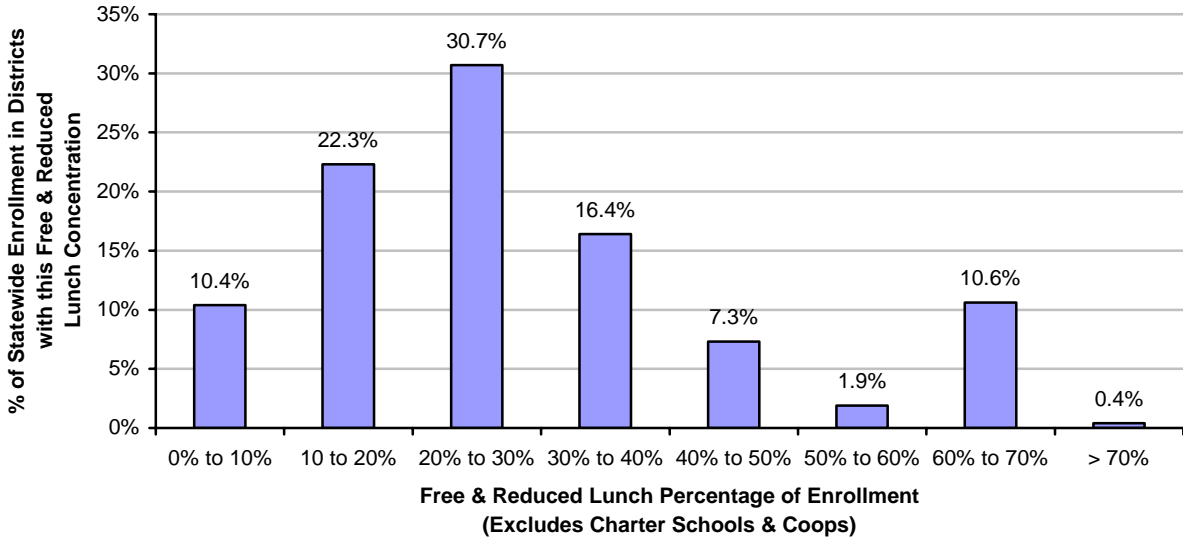
ADM capped at 1.0
 Excludes Charter Schools
 Source: MDE, February 2005 Forecast Data

2003 Adjusted Net Tax Capacity (ANTC) Per Estimated 2005-06 AMCPU

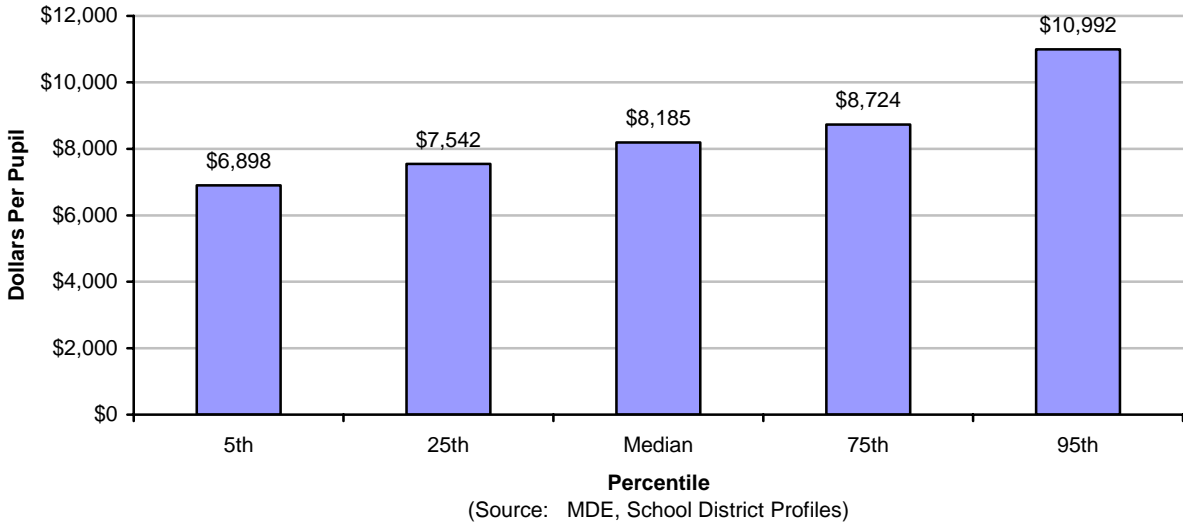


Source: MDE, February 2005 Forecast Data

**Percentage of Statewide Enrollment by
Free and Reduced Lunch Concentration of District
October 2004**



**Fiscal Year 2004 PK - 12 Operating Expenditures
Per Average Daily Membership**



School District General Fund Revenue, FY 1994 - 2007*
(State Aids and Property Taxes including Operating Referendum Revenue)

Fiscal Year	State Education Aids	State Paid Tax Credits	Net Prop. Tax Levy	Total Revenue (\$ in Millions)	Unweighted ADM***	--- Current Dollars ---		--- Constant (1994) Dollars** ---		
						Revenue Per ADM	Annual Percent Increase	Revenue Per ADM (1994 \$)	Annual Percent Increase	Cumulative Percent Increase
1994	2,416.1	153.0	1,605.0	4,174.1	790,637	5,279	N/A	5,279	N/A	N/A
1995	2,762.8	94.1	1,632.9	4,489.8	803,789	5,586	5.8%	5,423	2.7%	2.7%
1996	2,883.2	100.2	1,720.6	4,704.0	818,633	5,746	2.9%	5,432	0.2%	2.9%
1997	2,940.1	69.3	1,793.6	4,803.0	829,265	5,792	0.8%	5,326	-1.9%	0.9%
1998	3,193.8	54.9	1,824.0	5,072.7	835,972	6,068	4.8%	5,481	2.9%	3.8%
1999	3,480.1	234.3	1,573.1	5,287.5	842,513	6,276	3.4%	5,574	1.7%	5.6%
2000	3,827.9	352.5	1,428.2	5,608.6	843,449	6,650	6.0%	5,739	3.0%	8.7%
2001	4,132.7	474.7	1,340.3	5,947.7	842,764	7,057	6.1%	5,889	2.6%	11.5%
2002	4,202.2	483.1	1,397.7	6,083.0	839,424	7,247	2.7%	5,943	0.9%	12.6%
2003	5,955.8	29.4	466.7	6,451.9	836,579	7,712	6.4%	6,188	4.1%	17.2%
2004	5,919.5	26.9	607.7	6,554.1	829,832	7,898	2.4%	6,221	0.5%	17.8%
2005	5,888.5	25.2	689.4	6,603.1	825,367	8,000	1.3%	6,183	-0.6%	17.1%
2006	6,122.3	23.7	730.6	6,876.6	824,782	8,337	4.2%	6,321	2.2%	19.7%
2007	6,315.3	23.3	1,014.3	7,352.9	822,316	8,942	7.2%	6,648	5.2%	25.9%

* Based on current UFARS definition of general fund, which includes transportation and capital expenditures. Community service, debt service, and food service funds are excluded.

** Adjusted for inflation using Consumer Price Index; inflation adjustment factors for FY 2004 and later are consistent with February 2005 Forecast.

*** For purposes of this analysis, ADMs are shown at the current law level, with a cap of 1.0 ADM per student. For years prior to 2002, it assumes the same ratio of capped to ADM to uncapped ADM applies as in FY 2002 (earliest year of actual data).

Source: MDE, Division of Program Finance, District Revenue Tables, End of 2005 1st Special Session

Estimated General Education and Major Categorical Revenues
State Aid and Property Taxes
FY 2002 to FY 2007
State Totals

REVENUES PER ADJUSTED ADM (CAP = 1.0)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
1 ADJUSTED ADM (CAP = 1.0)	833,349	829,209	824,488	820,023	819,438	816,972
2 BASIC	\$ 4,782	\$ 5,413	\$ 5,339	\$ 5,345	\$ 5,546	\$ 5,766
3 EXTENDED TIME	0	0	61	59	59	60
4 COMPENSATORY	265	317	302	323	360	384
5 AOM	17	0	0	0	0	0
6 LEP TOTAL	54	56	44	46	48	48
7 TRAINING & EXPERIENCE	37	30	23	16	11	8
8 SPARSITY	17	20	20	21	22	24
9 TRANSPORTATION SPARSITY	60	68	67	68	70	72
10 OPERATING CAPITAL	239	239	236	236	236	236
11 SUPPLEMENTAL	11	0	0	0	0	0
12 TRANSITION (OLD)	9	0	0	0	0	0
13 EQUITY	43	42	39	51	62	117
14 GIFTED & TALENTED	0	0	0	0	5	10
15 TRANSITION (NEW)	0	0	39	38	37	37
16 LATE RATIFICATION	0	0	0	0	0	0
17 PENSION ADJUSTMENT	-56	-56	-57	-57	-57	-58
18 ALTERNATIVE ATTENDANCE	1	2	2	3	4	5
19 REFERENDUM	658	352	517	615	648	776
20 GENERAL ED TOTAL = SUM OF (2) TO (19) =	\$ 6,137	\$ 6,482	\$ 6,632	\$ 6,764	\$ 7,052	\$ 7,485
21 REVENUE CHANGE FROM PRIOR YEAR	N/A	345	150	132	288	434
22 PERCENT CHANGE FROM PRIOR YEAR	N/A	5.6%	2.3%	2.0%	4.3%	6.1%
23 SPECIAL ED REGULAR	\$ 612	\$ 640	\$ 644	\$ 645	\$ 645	\$ 645
24 SPECIAL ED EXCESS	109	111	112	112	126	128
25 SPEC ED CROSS SUBSIDY	0	0	6	13	0	0
26 SPECIAL ED TOTAL = (23) + (24) + (25) =	\$ 721	\$ 751	\$ 761	\$ 771	\$ 772	\$ 773
27 REVENUE CHANGE FROM PRIOR YEAR	N/A	30	10	9	1	2
28 PERCENT CHANGE FROM PRIOR YEAR	N/A	4.2%	1.3%	1.2%	0.1%	0.2%
29 CAREER TECHNICAL	15	16	16	16	16	16
30 INTEGRATION	97	94	95	96	103	102
31 ALTERNATIVE FACILITIES	95	122	129	146	164	193
32 MISCELLANEOUS LEVIES*	59	72	102	89	87	104
33 TOTAL LISTED REVENUE ABOVE = (20) + (26) + (29) + (30) + (31) + (32) =	\$ 7,125	\$ 7,537	\$ 7,735	\$ 7,882	\$ 8,194	\$ 8,673
34 REVENUE CHANGE FROM PRIOR YEAR	N/A	413	197	148	312	479
35 PERCENT CHANGE FROM PRIOR YEAR	N/A	5.8%	2.6%	1.9%	4.0%	5.8%
36 POTENTIAL Q COMP REVENUE	0	0	0	0	24	125
37 TOTAL LISTED REVENUE INCLUDING POTENTIAL Q COMP = (33) + (36) =	7,125	7,537	7,735	7,882	8,218	8,798
38 REVENUE CHANGE FROM PRIOR YEAR	N/A	413	197	148	335	581
39 PERCENT CHANGE FROM PRIOR YEAR	N/A	5.8%	2.6%	1.9%	4.3%	7.1%

* Miscellaneous Levies include: Building/Land Lease, Safe Schools, Reemployment, Judgment, Swimming Pool, Ice Arena, Severance, Lost Interest, Tree Growth, Special Levies, and Carpenter Bus Levies.

End of 2005 1st Special Session Calculations

Estimated General Education and Major Categorical Revenues
State Aid and Property Taxes
FY 2002 to FY 2007
State Totals

REVENUES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
1 ADJUSTED ADM (CAP = 1.0)	833,349	829,209	824,488	820,023	819,438	816,972
2 BASIC	\$ 3,984,963,282	\$ 4,488,496,206	\$ 4,401,890,959	\$ 4,383,126,727	\$ 4,544,962,337	\$ 4,710,841,985
3 EXTENDED TIME	0	0	50,351,550	48,729,651	48,432,245	48,851,353
4 COMPENSATORY	220,929,302	262,694,686	249,113,549	265,204,429	295,282,698	314,115,852
5 AOM	13,959,166	0	0	0	0	0
6 LEP TOTAL	44,711,632	46,636,335	36,095,471	37,678,062	39,201,671	39,325,909
7 TRAINING & EXPERIENCE	30,735,382	25,114,309	18,869,805	12,888,862	9,188,220	6,244,158
8 SPARSITY	14,098,235	16,471,552	16,866,839	17,088,421	18,153,679	19,444,720
9 TRANSPORTATION SPARSITY	50,192,767	56,238,225	55,614,915	55,642,762	57,456,228	59,171,602
10 OPERATING CAPITAL	199,151,411	198,438,434	194,219,561	193,923,428	193,362,851	192,686,262
11 SUPPLEMENTAL	9,435,661	0	0	0	0	0
12 TRANSITION (OLD)	7,586,602	0	0	0	0	0
13 EQUITY	36,068,879	34,642,491	32,112,771	41,452,903	50,431,327	95,290,933
14 GIFTED & TALENTED	0	0	0	0	3,802,899	8,528,471
15 TRANSITION (NEW)	0	0	31,003,625	31,289,245	30,626,925	30,036,714
16 LATE RATIFICATION	0	0	0	0	0	0
17 PENSION ADJUSTMENT	-46,453,550	-46,569,597	-46,687,241	-46,789,264	-47,046,212	-47,325,952
18 ALTERNATIVE ATTENDANCE	786,233	1,341,222	1,359,886	2,092,637	3,213,133	4,108,688
19 REFERENDUM	548,176,785	291,708,358	426,336,542	504,420,634	531,374,271	633,987,659
20 GENERAL ED TOTAL = SUM OF (2) TO (19) =	\$ 5,114,341,788	\$ 5,375,212,220	\$ 5,468,148,230	\$ 5,546,748,497	\$ 5,778,442,272	\$ 6,115,308,353
21 REV CHANGE FROM PRIOR YR	N/A	260,870,433	92,936,010	78,600,267	231,693,776	336,866,081
22 % CHANGE FROM PRIOR YR	N/A	5.1%	1.7%	1.4%	4.2%	5.8%
23 SPECIAL ED REGULAR	\$ 510,363,230	\$ 530,903,000	\$ 530,642,000	\$ 529,164,000	\$ 528,787,000	\$ 527,196,000
24 SPECIAL ED EXCESS	90,805,000	92,112,000	92,067,000	91,811,000	103,600,000	104,700,000
25 SPEC ED CROSS SUBSIDY	0	0	5,000,000	11,000,000	0	0
26 SPECIAL ED TOTAL = (23) + (24) + (25) =	\$ 601,168,230	\$ 623,015,000	\$ 627,709,000	\$ 631,975,000	\$ 632,387,000	\$ 631,896,000
27 REV CHANGE FROM PRIOR YR	N/A	21,846,770	4,694,000	4,266,000	412,000	-491,000
28 % CHANGE FROM PRIOR YR	N/A	3.6%	0.8%	0.7%	0.1%	-0.1%
29 CAREER TECHNICAL	12,613,930	13,182,507	13,182,507	13,182,507	13,182,507	13,182,507
30 INTEGRATION	80,821,408	77,552,564	78,165,527	78,920,267	84,561,962	83,000,063
31 ALTERNATIVE FACILITIES	79,051,888	101,476,734	106,159,851	119,536,246	134,762,321	157,283,600
32 MISCELLANEOUSE LEVIES*	49,344,158	59,557,503	83,807,272	73,241,665	71,149,361	84,948,509
33 TOTAL LISTED REVENUE = (20)+(26)+(29)+(30)+(31)+(32) =	\$ 5,937,341,402	\$ 6,249,996,529	\$ 6,377,172,387	\$ 6,463,604,182	\$ 6,714,485,423	\$ 7,085,619,033
34 REV CHANGE FROM PRIOR YR	N/A	312,655,126	127,175,858	86,431,795	250,881,241	371,133,611
35 % CHANGE FROM PRIOR YR	N/A	5.3%	2.0%	1.4%	3.9%	5.5%
36 POTENTIAL Q COMP REVENUE	0	0	0	0	19,329,000	102,405,161
37 TOTAL LISTED REV INCLUDING POTENTIAL Q COMP =(33)+(36)=	5,937,341,402	6,249,996,529	6,377,172,387	6,463,604,182	6,733,814,423	7,188,024,194
38 REV CHANGE FROM PRIOR YR	N/A	312,655,126	127,175,858	86,431,795	270,210,241	454,209,772
39 % CHANGE FROM PRIOR YR	N/A	5.3%	2.0%	1.4%	4.2%	6.7%

* Miscellaneous Levies include: Building/Land Lease, Safe Schools, Reemployment, Judgment, Swimming Pool, Ice Arena, Severance, Lost Interest, Tree Growth, Special Levies, and Carpenter Bus Levies.

End of 2005 1st Special Session Calculations

**CURRENT EXPENDITURE PER PUPIL
IN FALL ENROLLMENT
Minnesota vs. U.S. Average**

Fiscal Year	U.S.	Minnesota	Minnesota Rank	Minnesota Percent of U.S.
1970	\$ 751	\$ 855	5	113.8%
1975	1,257	1,407	6	111.9%
1980	2,088	2,296	12	110.0%
1985	3,222	3,508	12	108.9%
1990	4,643	4,698	17	101.2%
1991	4,902	4,946	17	100.9%
1992	5,023	5,089	18	101.3%
1993	5,160	5,210	20	101.0%
1994	5,327	5,342	18	100.3%
1995	5,529	5,626	17	101.8%
1996	5,689	5,801	16	102.0%
1997	5,923	6,005	16	101.4%
1998	6,189	6,388	15	103.2%
1999	6,508	6,791	16	104.3%
2000	6,911	7,190	16	104.0%
2001	7,376	7,645	15	103.6%
2002	7,734	7,736	20	100.0%
2003	8,041	8,109	19	100.8%

SOURCES: U.S. Department of Education, National Center for Education Statistics, *State Comparisons of Education Statistics: 1969-70 to 1996-97, Table 41, Digest of Education Statistics, 1999, Table 172, and Revenues and Expenditures for Elementary and Secondary Education: School Year 1997-98, School Year 1998-99, 2002-03 editions, Table 5.*

NOTES: Amounts shown are not adjusted for inflation.
Rankings exclude District of Columbia.

B. 2005-2006 Elementary Secondary Education Revenue Summary*

Program	Total Revenue (\$ Millions)	Revenue Per Pupil in ADM	Percent of Total Revenue
General Education**	\$ 5,305.7	\$ 6,475	68.9%
Referendum	531.4	648	6.9%
Special Education	643.6	785	8.4%
Other General Programs***	395.9	483	5.1%
 Subtotal General Fund	 6,876.6	 8,392	 89.3%
 Food Service	 13.3	 16	 0.2%
Community Service	144.0	N/A ****	1.9%
Debt Redemption	668.4	816	8.7%
 Total All Funds	 \$ 7,702.3	 \$ 9,224 ****	 100.0%
 ADM Pupils	 819,438		

* Revenue includes estimated state aid entitlements and gross levies.
Excludes federal aids, local non-tax revenues, and appropriations to state agencies.

** Includes transportation and operating capital funding enrolled into general education program beginning in 1996-97.

*** Includes Health & Safety Revenue (\$65.3), Alternate Facilities Annual Levy/Aid Revenue (\$64.2), Building Lease Levies (\$35.7), Charter School Building Lease Aid (\$26.3), Safe Schools Levy (\$24.2), Desegregation/Integration Revenue (\$83.1), Nonpublic Transportation Aid (\$21.6), and many smaller categorical revenues.

**** Community service revenue is excluded in computing revenue per pupil because these programs primarily serve preschool and adult learners, who are not included in the ADM pupil count.

Source: MDE, Division of Program Finance, District Revenue Tables and General Education work papers, End of 2005 1st Special Session.

C. General Education Revenue by Component: 2005-2006 Estimate

Component	Number of Districts	Number of Charter Schools	Amount (Millions)	Percent of Total
<u>Formula – Based Revenue:</u>				
Basic	342	104	\$ 4,545.0	77.9%
Extended Time	110	7	48.4	0.8%
Gifted and Talented	342	104	3.8	0.1%
Basic Skills:				
Compensatory	341	98	293.2	5.0%
LEP	187	40	30.7	0.5%
LEP, including concentration	187	40	8.5	0.2%
Sparsity	82	104	18.2	0.3%
Transportation Sparsity	342	54	57.5	1.0%
Training & Experience	157	104	9.2	0.2%
Operating Capital	342	104	193.4	3.3%
Alternative Teacher Comp.	31	9	19.3	0.3%
Equity	321	104	50.4	0.9%
Transition	204	49	30.6	0.5%
Alternative Attendance Adj.	254	99	3.2	0.1%
Miscellaneous Adjustments:				
Pension Adjustment	342	104	(47.0)	(0.8%)
PSEO-College	N/A	N/A	20.0	0.3%
Shared Time	N/A	N/A	3.9	0.1%
Contract Alternative	N/A	N/A	13.8	0.2%
Subtotal	343	104	\$ 5,302.1	90.9%
<u>Referendum-Based Revenues:</u>				
Oper. Referendum	301	0	531.4	9.1%
Grand Total Revenue	343	104	\$ 5,833.5	100.0%

Source: MDE, Division of Program Finance, End of 2005 1st Special Session work papers. Includes state aids and levies. Levies are shown by formula year.

D. General Education Revenue Formulas

1. Basic Revenue

Basic Revenue = Formula Allowance X Adjusted Marginal Cost Pupil Units

	Gross Formula Allowance	Referendum Roll-in (a)	Other Roll-ins		Net Increase Excluding Roll-Ins	Net Percent Increase
1990-91	\$2,953				\$115	4.1%
1991-92	\$3,050				\$97	3.3%
1992-93	\$3,050				\$0	0.0%
1993-94	\$3,050				\$0	0.0%
1994-95	\$3,150	\$100			\$0	0.0%
1995-96	\$3,205				\$55	1.7%
1996-97	\$3,505		\$300	(b)	\$0	0.0%
1997-98	\$3,581				\$76	2.2%
1998-99	\$3,530		-\$130	(c)	\$79	2.2%
1999-00	\$3,740		\$43	(d)	\$167	4.7%
2000-01	\$3,964		\$67	(e)	\$157	4.2%
2001-02	\$4,068				\$104	2.6%
2002-03	\$4,601	\$415	\$14	(f)	\$104	2.6%
2003-04	\$4,601				\$0	0.0%
2004-05	\$4,601				\$0	0.0%
2005-06	\$4,783				\$182	4.0%
2006-07	\$4,974				\$191	4.0%

- (a) In 1994-95 and 2002-03, the increase in the general education formula was offset by a reduction in operating referendum revenue. Districts with no operating referendum received an additional revenue increase equal to the amount of the roll-in; districts with an operating referendum greater than the amount of the roll-in received property tax relief but no additional revenue; districts with an operating referendum less than the roll-in amount received a revenue increase less than the full roll-in amount and some property tax relief.
- (b) \$130 of training & experience revenue and \$170 of pupil transportation revenue rolled into basic formula
- (c) \$130 of training & experience revenue rolled out of basic formula
- (d) \$43 of graduation standards aid rolled into basic formula
- (e) \$67 of district cooperation revenue rolled into basic formula. Of the net increase of \$157, \$39 was set aside for staff development (increase from 1% to 2% set aside)
- (f) \$14 of assurance of mastery revenue rolled into basic formula

Class Size Reduction Set-Aside:

The portion of basic revenue generated by the extra .057 weight for kindergarten, the extra .115 weight for grades 1-3, and the extra .06 weight for grades 4-6 must be reserved for K-3 class size reduction.

Staff Development Set-Aside:

Two percent of the basic revenue for FY 2001 and later must be set-aside for staff development, unless the district waives the requirement by a majority vote of the teachers and a majority vote of the school board. Of this amount, 50% must be allocated to sites based on a per teacher basis, 25% is for district-wide staff development efforts, and 25% must be used for grants to sites for best practices methods. *Note: This requirement was waived for FY 2004 and FY 2005 only; it is back in effect for FY 2006 and FY 2007.*

2. Extended Time Revenue

Beginning in FY 2004, the average daily membership is limited to 1.0 for each student, except for the computation of extended time revenue. Students in learning year programs who are served more than full-time may generate up to an additional 0.2 ADM. Extended time revenue may be used for extended day, extended week, summer school, or other programming authorized under the learning year program. The extended time revenue equals \$4,601 times the extended time adjusted marginal cost pupil units.

3. Gifted and Talented Revenue

A district's gifted and talented revenue for FY 2006 equals \$4 per AMCPU; for FY 2007 and later, the gifted and talented allowance is increased to \$9 per AMCPU. Gifted & talented revenue must be reserved and used only to identify gifted & talented students, provide educational programs for gifted & talented students, or provide staff development for teachers to best meet the needs of gifted & talented students.

4. Basic Skills Revenue

Basic Skills Revenue must be used to meet the educational needs of pupils who enroll under-prepared to learn and whose progress toward meeting state or local content or achievement standards is below the level that is appropriate for learners of their age. Basic Skills Revenue is the sum of the following:

a. Compensatory Revenue

- Computed using building-level free and reduced lunch data as of October 1 of the previous year.
- Allocated directly to school sites; however, an amount up to 5% of the prior year's revenue may be allocated according to a local plan approved by the Commissioner.

$$\text{Compensatory Revenue} = (\text{Formula Allowance} - \$415) \times \text{Compensatory Pupil Units}$$

$$\text{Compensatory Pupil Units} = (\text{Free} + \frac{1}{2} \text{ of reduced price lunch count}) \times \text{Concentration Factor} \times .60$$

$$\text{Concentration Factor} = \text{Ratio of (free} + \frac{1}{2} \text{ of reduced price lunch count) to 80\% of total building enrollment, but not } > 1$$

b. Limited English Proficiency (LEP) Revenue

1) Basic Revenue = \$700 X Adjusted Marginal Cost (AMC) eligible LEP average daily membership served

- Students who have generated 5 or more ADM in Minnesota public schools before the start of the current school year are not eligible to be counted for LEP revenue calculations. Students in grades 4 – 12 who were enrolled in a Minnesota public school when the Test of Emerging Academic English (TEAE) was administered during the prior year are not eligible unless they scored below the state cutoff score on the TEAE. AMC LEP ADM served is the greater of current year eligible LEP ADM served or the sum of 77% of current year plus 23% of prior year (if AMC LEP ADM served is greater than 0 but less than 20, 20 is used in the calculations; if current year count is zero, district does not qualify for revenue).

2) Concentration Revenue = LEP enrollment X \$250 X LEP concentration factor

- The LEP concentration factor equals the lesser of 1 or the ratio of the district's LEP concentration percent to 11.5%.
- Additional Basic Skills Revenue targeted to school districts with high concentrations of LEP students.

5. Sparsity Revenue

- Funds added costs of operating geographically isolated small schools.
- Secondary schools must have less than 400 students in grades 7-12 and an "isolation index" greater than 23; elementary schools must average 20 or fewer students per grade level and be 19 or more miles to the nearest elementary school.

6. Transportation Sparsity Revenue

- Funds added costs of providing transportation in districts with fewer than 200 pupil units per square mile. (Transportation funding for all districts of \$232 per pupil unit (4.85% of formula allowance) is included in the basic formula

allowance.) The transportation sparsity allowance gradually increases as population density decreases, reflecting the relationship between average transportation costs and population density.

7. Training & Experience (T&E) Revenue

- Partially compensates districts for salary differences associated with training and experience of teachers employed by the district in 1996-97.
- Being phased out as these staff leave employment with the district.

8. Operating Capital Revenue

- Provides funding for capital expenditure facilities and equipment costs.
- Revenue per AMC pupil unit = $\$73 + \$100 * [1 + (\text{Avg Building Age}/100)]$.

Note: For buildings more than 50 years old, 50 is used in the computations.

9. Equity Revenue

- Additional revenue for districts with Basic + Referendum Revenue per pupil unit below the regional 95th percentile (regions are seven county metro area, rural).
- Minneapolis, St. Paul, and Duluth are not eligible for revenue, except as noted below for FY 2007 and later..
- For qualifying districts with no referendum levy, the initial revenue allowance = \$13.
- For qualifying districts with a referendum levy, the initial revenue allowance = \$13 + up to \$75, depending on how far the district's revenue per pupil unit is below the regional 95th percentile (sliding scale).
- Districts with referendum revenue below 10% of the state average per pupil unit (approximately \$57 / PU for FY 2006) receive additional equity revenue equal to the difference between 10% of the state average and the district's referendum revenue per pupil unit (includes districts with no referendum).
- For districts in the 7 county metro area, the equity revenue as computed above is increased by 25%.
- Beginning in FY 2007, all districts below the regional 95th percentile, (including Minneapolis, St. Paul, and Duluth), receive an additional \$46 per pupil unit; districts at or above the 95th percentile receive an additional \$23 per pupil unit.

10. Alternative Teacher Compensation (Q Comp) Revenue

- Beginning in FY 2006, the maximum revenue for participating school districts, charter schools and intermediate districts is \$260 times the October 1 enrollment in the previous school year. For districts where only selected sites are participating, the funding is based on the prior school year's October 1 enrollment at the participating sites. For FY 2006, participation is limited to districts and schools making up 9% of the state's total enrollment; for FY 2007 and later, participation is limited to districts and schools making up 48% of the state's total enrollment.

- Funding is all aid in FY 2006; for FY 2007 and later, funding includes \$190 per pupil of aid and a \$70 per pupil equalized levy.

11. Transition Revenue

Transition revenue is a hold-harmless provision created in 2003 to ensure that a district's FY 2004 general education revenue per old formula AMCPU (before applying the 1.0 ADM limit), excluding referendum revenue and alternative attendance adjustments, would not be less than the lesser of:

- The district's FY 2003 general education revenue per AMCPU, excluding referendum revenue and alternative attendance adjustments, or
- The amount the district would have received per AMCPU for FY 2004 under the laws in effect before the changes enacted in 2003.

For FY 2005 and later, a district's transition revenue equals the district's FY 2004 transition allowance per pupil unit times the district's current year AMCPU.

12. Pension Adjustment

- Aid reduction to offset cost savings to school districts from reductions made in 1990-91 and 1997-98 in the teacher retirement employer contribution rate.

13. Alternative Attendance Adjustment

- The aid portion of referendum revenue follows the student to the nonresident district or charter school the student attends. The resident district loses the aid generated by the student.
- If the student enrolls in another school district, that district's aid is increased by the nonresident district's referendum aid per pupil unit.
- If the student enrolls in a charter school, the charter school's aid is increased by the amount subtracted from the aid paid to the resident district.

14. Post-Secondary Enrollment Options (PSEO)

- Payments to colleges for students enrolled in the PSEO program.

$$\frac{[(\text{Formula Allowance} - \$415) \times 88\% \times 1.3 \text{ Secondary Weight}]}{(30 \text{ for semester credit})}$$

15. On-Line Learning

- Beginning in FY 2006, students taking on-line learning courses provided by the school district or charter school in which they are enrolled are counted as regular pupil units by the enrolling district or charter school, regardless of whether they were enrolled in a Minnesota public school the year before they enrolled in on-line learning.

- School districts and charter schools providing on-line learning courses for students enrolled in other Minnesota public schools receive on-line learning aid equal to 88% of 1/12th of an ADM for each completed semester course or equivalent times the pupil's grade level weight times the formula allowance.
- The enrolling district generates 12% of 1/12th of a regular ADM for each completed semester course or equivalent, which is used in regular general education revenue calculations.

16. Shared Time

- Payments to school districts for courses taken at the public school by nonpublic school pupils.
- Revenue equals formula allowance times weighted full-time equivalent ADM.

17. Contract Alternative

- Payments to school districts for students enrolled in private alternative programs under contract with districts. At least 95% of the general education revenue earned by these students (100% of Basic Skills Revenue) must be paid to the private organization.

18. Referendum Revenue

- Additional money for school operations approved in a referendum election.
- Initial allowance per pupil unit is based on ballot wording.
- Capped at the greater of : (1) 18.6% of the formula allowance or (2) the greater of product of (a) the greater of \$855.79 per pupil unit or 117.7% of the district's FY 1994 referendum allowance minus \$415, times (b) a statutory inflation factor based on the Consumer Price Index (CPI). (Sparsity districts exempted.)
- Beginning in FY 2007, the cap is increased to the greater of : (1) 26% of the formula allowance or (2) the greater of product of (a) the greater of \$1,294 per pupil unit or 117.7% of the district's FY 1994 referendum allowance minus \$215, times (b) the .
- Until the early 90s, referendums were typically ongoing, were based on a fixed tax rate, and were spread against tax capacity. Newer referendums have a limited duration (currently up to ten years), are based on a fixed amount per pupil unit, and are spread against referendum market value.
- For FY 2003 and later, \$415 per pupil unit was transferred from referendum revenue to the basic formula, thereby increasing basic revenue by \$415 per pupil unit and decreasing referendum revenue by the lesser of a district's referendum allowance or \$415 per pupil unit.

III. STATE AID AND PROPERTY TAX LEVY COMPUTATIONS

A. K-12 Education Property Tax Levy Summary: 2004 Payable 2005 (FY 2006)

Levy Type	Amount (\$ in Millions)	Percent of Total Before Reductions
Formula-Driven Levies:		
Operating Capital	44.1	3.1%
Equity	24.7	1.7%
Transition	17.9	1.2%
Health & Safety	64.6	4.5%
Building Lease	35.7	2.5%
Alternative Facilities	61.4	4.3%
Integration	24.7	1.7%
Safe Schools	24.2	1.7%
Career Technical	12.7	0.9%
Other General Fund	13.4	0.9%
Community Service Fund	65.5	4.5%
Debt Service Fund	127.7	8.9%
Subtotal, Formula-Driven Levies	516.6	35.9%
Voter Approved Levies:		
Operating Referendum	403.9	28.0%
Capital Projects Referendum	21.1	1.5%
Debt Service	499.0	34.6%
Subtotal, Voter Approved Levies	924.0	64.1%
Total Levy Before Credits	1,440.6	100.0%
Estimated Credits:		
Market Value Homestead Credit	(59.6)	
Homestead Ag Land MV Credit	(5.3)	
Other Credits	(9.4)	
Total Levy After Credits:	1,366.3	

Source: MDE, Division of Program Finance, End of 2005 1st Special Session work papers.

B. Aid and Levy Computations

1. Examples of Revenue Formulas

- a. No. of Pupil Units times Allowance (e.g., Basic General Education)
- b. Approved Expenditures (e.g. Health & Safety)

2. Examples of Levy Formulas

- a. Tax Rate Levies – Adjusted Net Tax Capacity (ANTC) times Tax Rate (e.g., Community Education Levy – tax rate for 2004 Payable 2005 levy was 0.0985% of ANTC.
- b. “Equalized” Levies – The school district levies for a percentage of the revenue based on the ratio of the district’s ANTC per Pupil Unit (referendum market value/PU for operating referendum levies spread against referendum market value) to an “equalizing factor” specified in law. “Equalizing factors” vary among programs.

Example #1: Operating Referendum

For FY 2006, state aid is provided to “equalize” access to the first \$500/PU using an “equalizing factor” of \$476,000 of referendum market value per pupil unit. In addition, referendum revenue over \$500/PU up to 18.6% of the formula allowance (\$890/PU) is equalized using an equalizing factor of \$270,000. If a district’s referendum market value per pupil unit is \$238,000, district property tax payers pay 50% of the first \$500/PU of the referendum revenue, and the state pays 50%. For referendum revenue over \$500/PU, up to \$890/PU, the local tax levy pays for 86% of the revenue, and the state pays 14%. (*Note: Tier I equalization is increased from \$500 in FY 2006 to \$600 for FY 2007 and to \$700 for later years*).

Example #2: Health & Safety

State aid is provided to “equalize” this levy, using an “equalizing factor” of \$2,935. If a district’s ANTC/WADM is 60% of this amount, the district’s property tax levy pays for 60% of the revenue, and state aid pays for 40% of the revenue.

- c. “Unequalized” Levies – The school district levies the full amount of the revenue; there is no state equalization aid (e.g., building lease levy, unemployment levy).

3. State Aid = Revenue – Levy