



K-12 EDUCATION

FINANCE

OVERVIEW

2003-2004

Division of Program Finance

June 2003

TABLE OF CONTENTS

I. Context for School Finance

| | | |
|----|--|---|
| A. | Legal Context..... | 1 |
| B. | Minnesota Education Finance Terms..... | 2 |
| C. | Minnesota's Public Finance System..... | 4 |
| D. | Characteristics of School Districts..... | 9 |

II. K-12 Education Revenue

| | | |
|----|---|----|
| A. | School Revenue Trends | 12 |
| B. | 2003-04 Elementary Secondary Education Revenue Summary | 16 |
| C. | General Education Revenue by Component..... | 17 |
| D. | General Education Revenue Formulas..... | 18 |

III. State Aid and Property Tax Levy Computations

| | | |
|----|--|----|
| A. | K-12 Education Property Tax Levy Summary | 23 |
| B. | Aid and Levy Computations | 24 |

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 2004 begins July 1, 2003 and ends June 30, 2004.
- b. With certain exceptions, the property tax levy certified in 2002 for taxes payable in 2003 is recognized as revenue in FY 2004.

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 2003)

| | |
|--|-------|
| 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 levy calculations*, equals the estimated market value of property, excluding the following property classes:

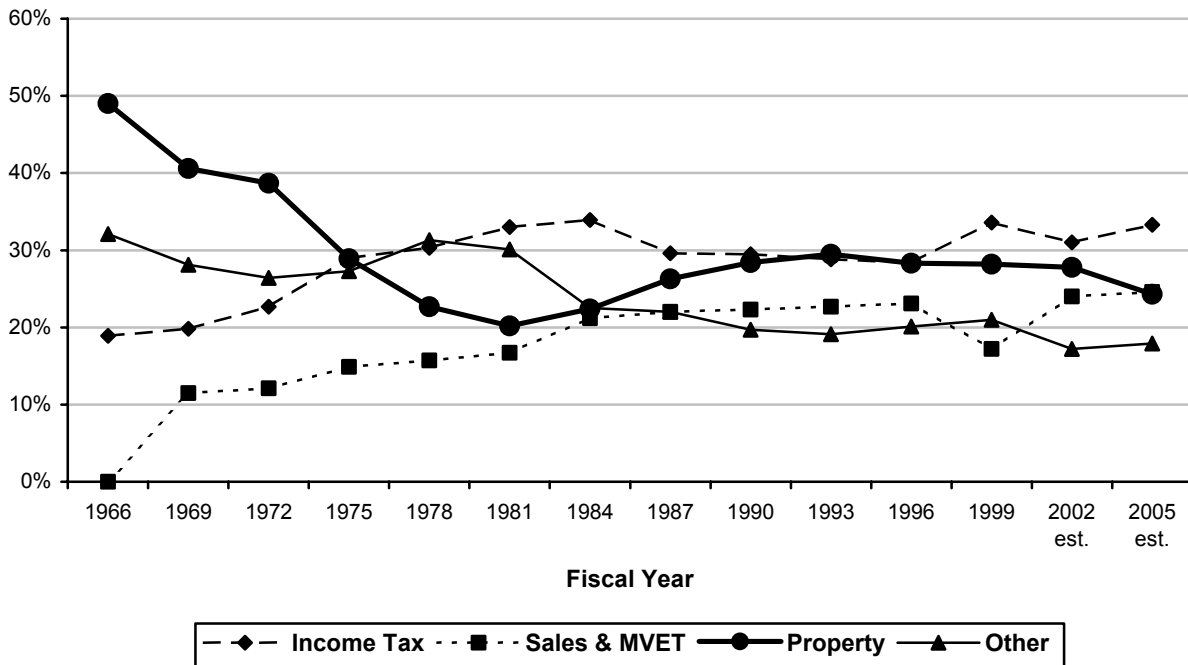
- Agricultural Land and Buildings
(Note: house, garage, and one acre are not exempt)
- Seasonal Recreational Residential

*Note: Referendum market value will also be used for transition and equity levies beginning in FY 2005

C. Minnesota Public Finance System

1. Combined State and Local Tax Revenues

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



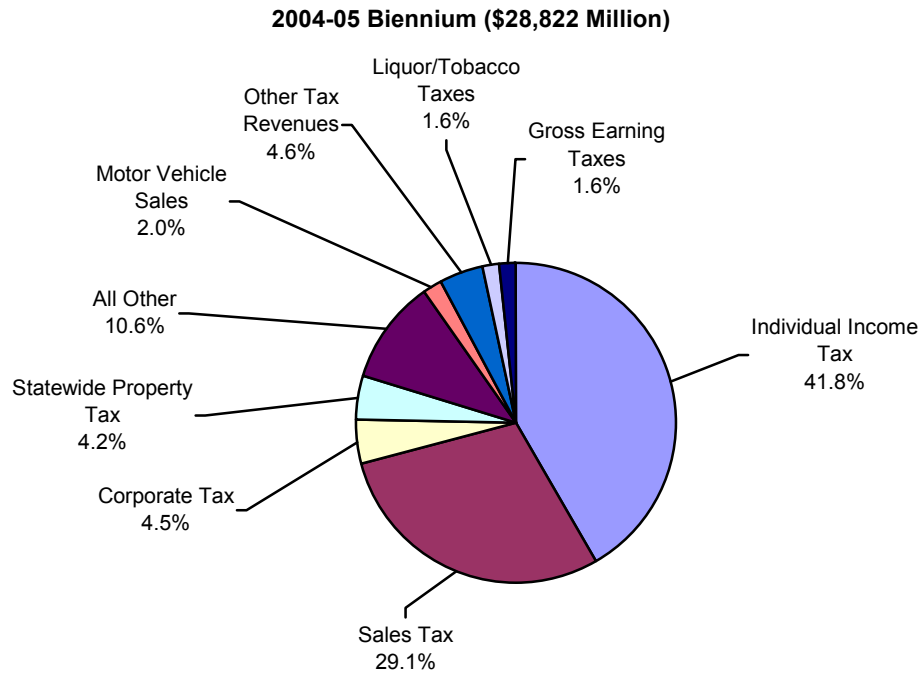
| Fiscal Year | Income Tax | Sales & MVET | Property** | Other* |
|-------------|------------|--------------|------------|--------|
| 1966 | 18.9% | 0.0% | 49.0% | 32.1% |
| 1969 | 19.8% | 11.5% | 40.6% | 28.1% |
| 1972 | 22.7% | 12.1% | 38.7% | 26.4% |
| 1975 | 29.0% | 14.9% | 28.9% | 27.3% |
| 1978 | 30.3% | 15.7% | 22.7% | 31.3% |
| 1981 | 33.0% | 16.7% | 20.2% | 30.1% |
| 1984 | 33.9% | 21.2% | 22.4% | 22.5% |
| 1987 | 29.6% | 22.0% | 26.3% | 22.0% |
| 1990 | 29.5% | 22.3% | 28.4% | 19.7% |
| 1993 | 28.8% | 22.7% | 29.5% | 19.1% |
| 1996 | 28.4% | 23.1% | 28.3% | 20.1% |
| 1999 | 33.6% | 17.2% | 28.2% | 21.0% |
| 2002 est. | 31.0% | 24.0% | 27.8% | 17.2% |
| 2005 est. | 33.3% | 24.6% | 24.3% | 17.9% |

* 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 2003 Legislative Sessions

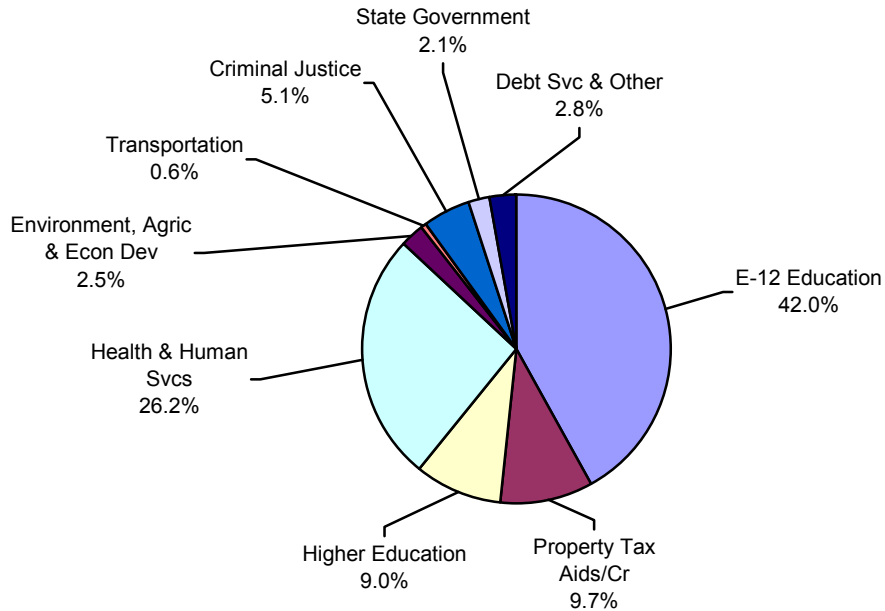


| | <u>\$ in Millions</u> |
|--|-----------------------|
| Balance Forward 6-30-03 | \$ 180 |
| Non-Dedicated Revenues: | |
| Individual Income Tax | 12,034 |
| Sales Tax | 8,384 |
| Corporate Tax | 1,304 |
| Statewide Property Tax | 1,221 |
| Motor Vehicle Sales Tax | 574 |
| Gross Earnings Taxes | 447 |
| Liquor, Wine, Beer Taxes | 133 |
| Cigarette and Tobacco Taxes | 324 |
| Other Tax Revenues | 1,338 |
| All Other Revenues | <u>1,347</u> |
| Subtotal Non-Dedicated Revenues | 27,106 |
| Dedicated Revenue | 127 |
| Transfers from Other Funds | 1,390 |
| Prior Year Adjustments | <u>20</u> |
| SUBTOTAL CURRENT RESOURCES | <u>28,642</u> |
| TOTAL AVAILABLE RESOURCES – FY 2004-05 | \$28,822 |
| Less: Estimated Expenditures | 28,301 |
| Budget Reserve | <u>522</u> |
| Projected General Fund Balance 6-30-05 End of 2003 Legislative Sessions | <u><u>\$ 0</u></u> |

Source: Department of Finance – June 6, 2003

3. Where the General Fund Dollars Go – End of 2003 Legislative Sessions

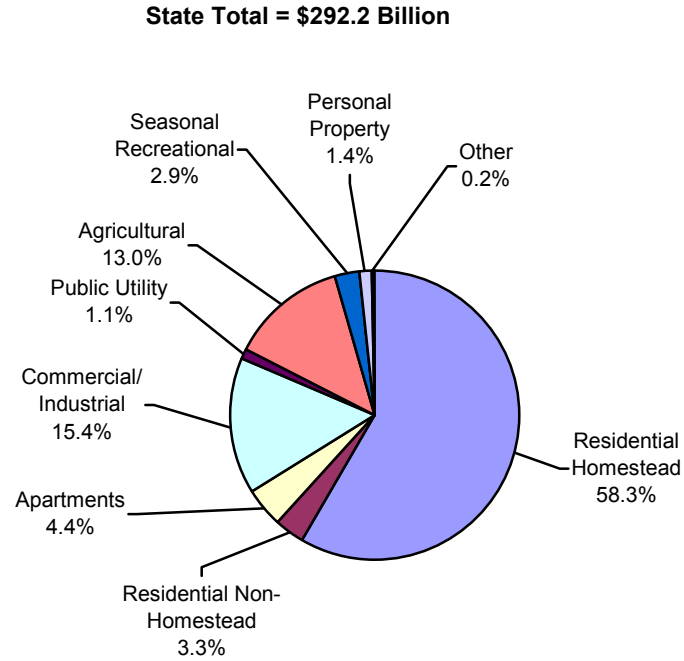
**2004-05 Biennium
(\$28,301 Million Spending
\$522 Million Budget Reserve)**



| | <u>\$ in Millions</u> |
|--|-----------------------|
| Total Available Resources – FY 2004-05 | \$28,822 |
| Major Spending Items: | |
| E-12 Education | 12,323 |
| Property Tax Recog/Payment Change | (440) |
| Property Tax Aids & Credits | 2,737 |
| Higher Education | 2,560 |
| Health & Human Services | 7,428 |
| Environment, Agric & Economic Dev | 697 |
| Transportation | 161 |
| Criminal Justice | 1,434 |
| State Government | 604 |
| Debt Service | 674 |
| Estimated Cancellations | <u>(5)</u> |
| Subtotal – Major Spending Items | 28,174 |
| Dedicated Expenditures | <u>127</u> |
| TOTAL ESTIMATED EXPENDITURES – FY 2004-05 | \$28,301 |
| Budget Reserve | <u>522</u> |
| Projected General Fund Balance 6-30-05 End of 2003 Legislative Sessions | <u>\$ 0</u> |

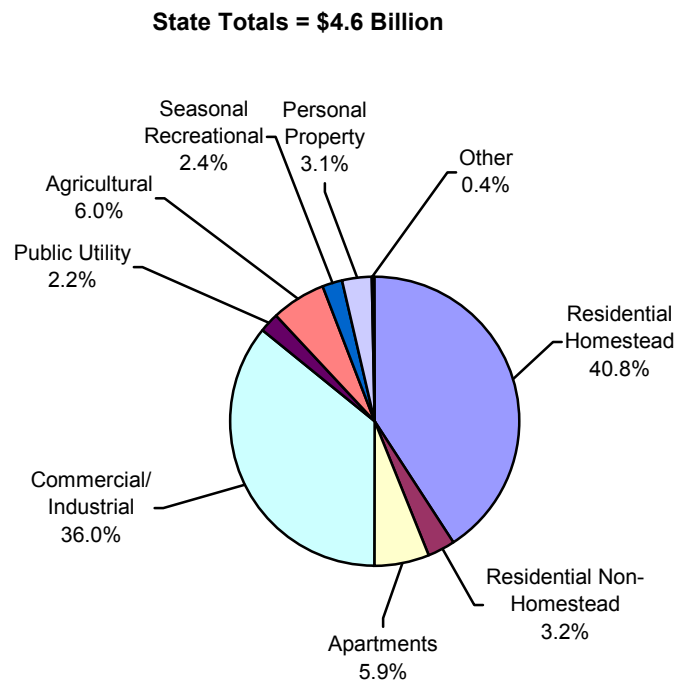
Source: Department of Finance – June 6, 2003

4. Payable 2002 Market Value by Use Class



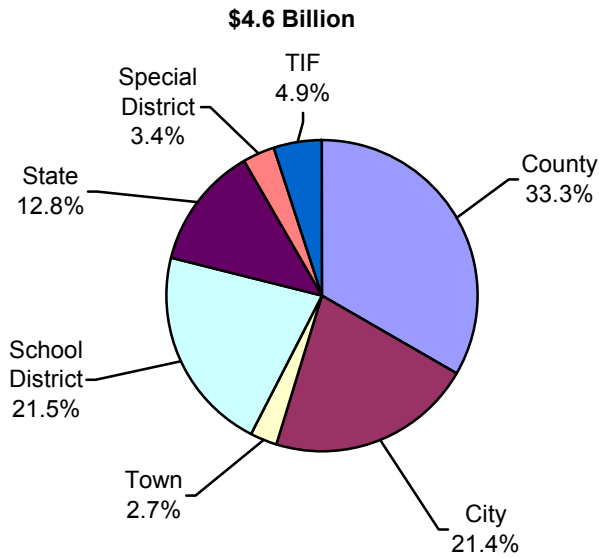
Source: Department of Revenue, Property Tax Bulletin Table #29

5. Payable 2002 Net Property Tax by Use Class



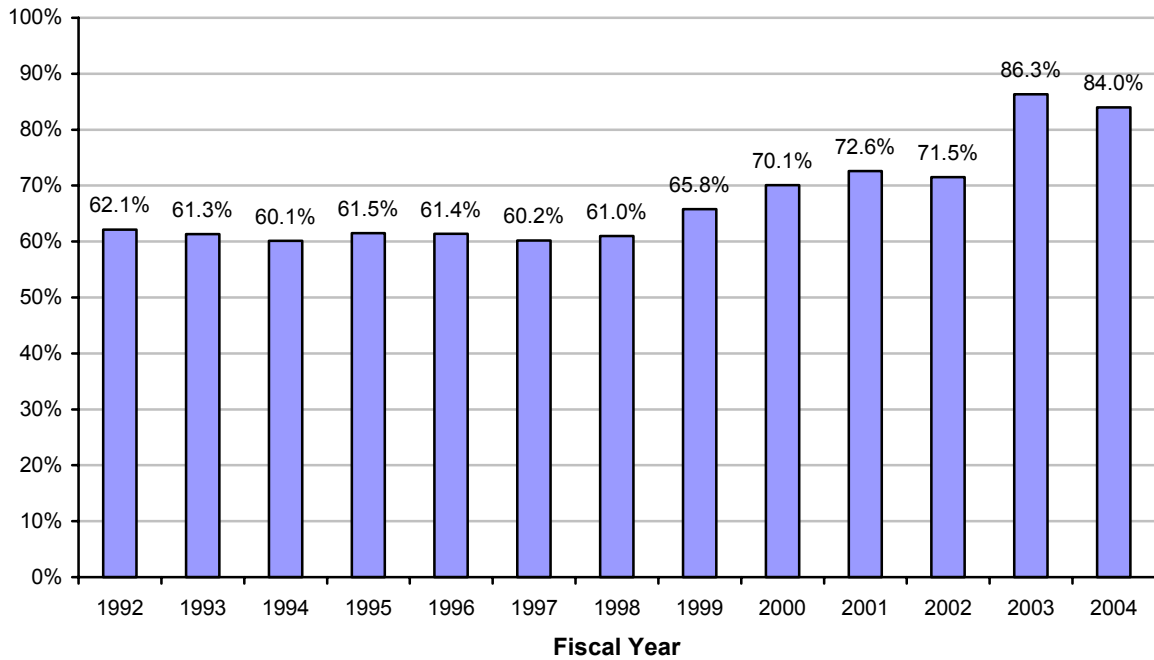
Source: Department of Revenue, Property Tax Bulletin Table #41

6. Payable 2002 Property Tax Levy by Type of Government After Credits



Source: Minnesota House Research, Property Tax Levy by Type of Government

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



Source: MDE, Price of Government Data, February 2003 Forecast

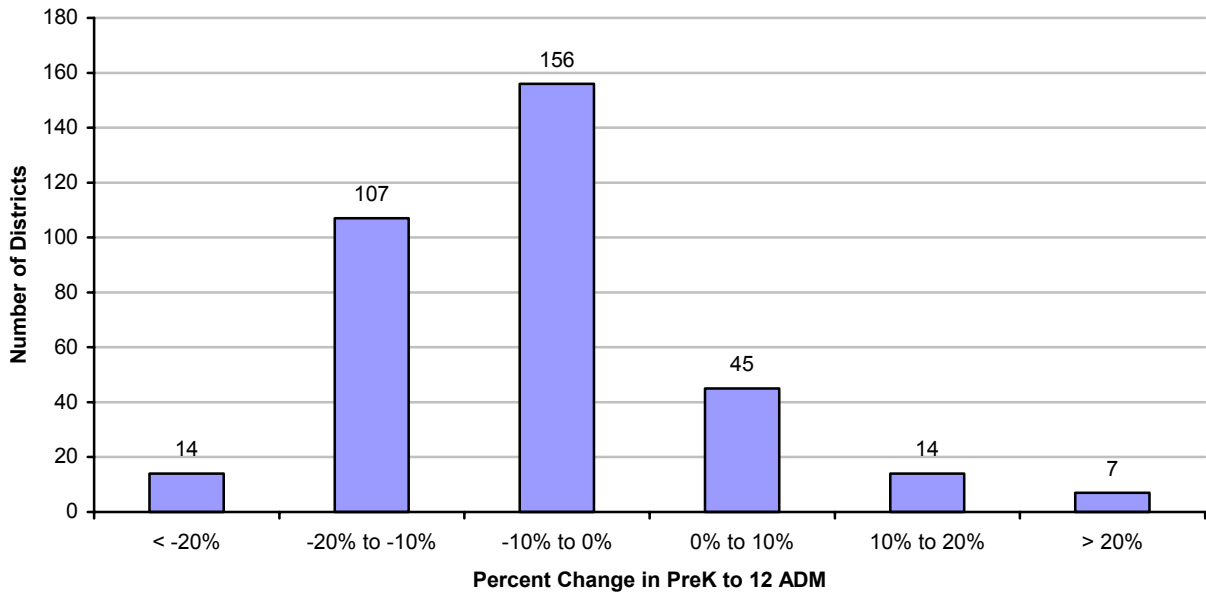
D. Characteristics of School Districts

Number of School Districts by Adjusted 2001-02 Average Daily Membership Group

| ADM Group | No. of Districts | Total ADM | % of Total ADM |
|------------------|-------------------------|------------------|-----------------------|
| 0-299 | 38 | 6,946 | 0.8% |
| 300-999 | 137 | 84,349 | 10.1% |
| 1,000-2,999 | 104 | 171,360 | 20.5% |
| 3,000-9,999 | 49 | 260,538 | 31.2% |
| 10,000 + | 15 | 312,122 | 37.4% |
| Total | 343 | 835,315 | 100.0% |

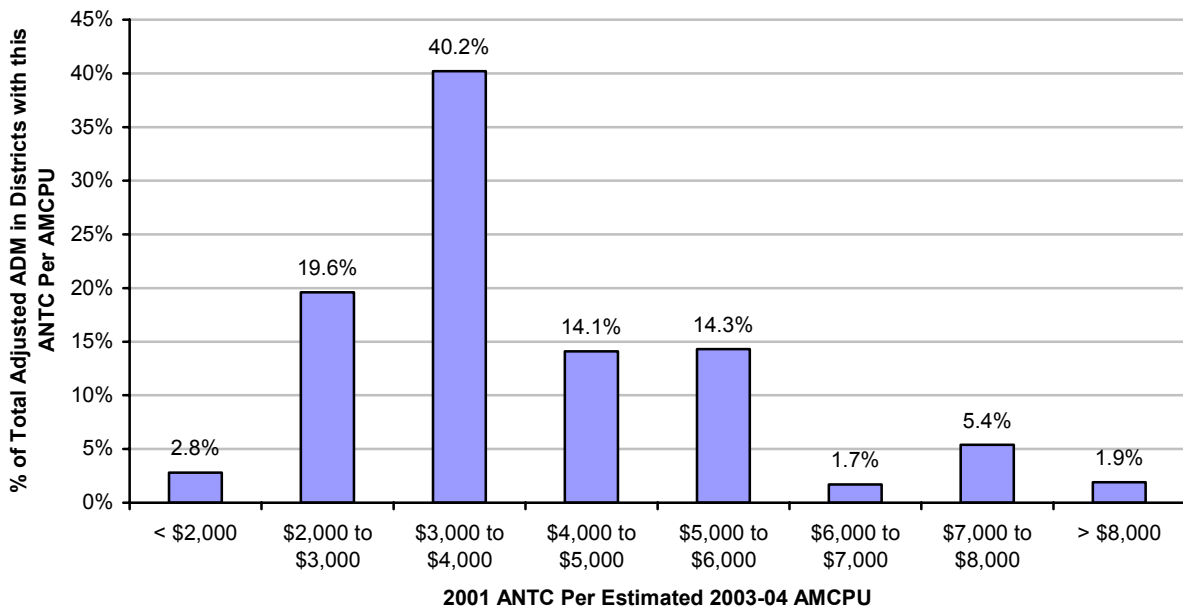
Source: MDE, FY 2002 Final MARSS Data

**Estimated Percentage Change in PreK - Grade 12 Adjusted ADM
FY 2002 to FY 2006**



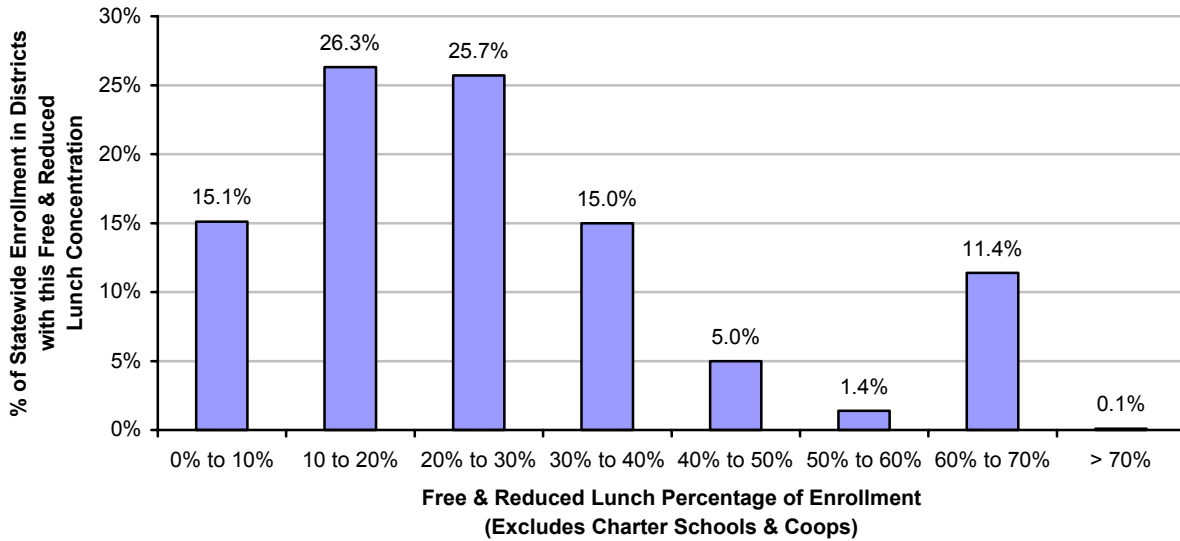
Source: MDE, February 2003 Forecast Data

2001 Adjusted Net Tax Capacity (ANTC) Per Estimated 2003-04 AMCPU

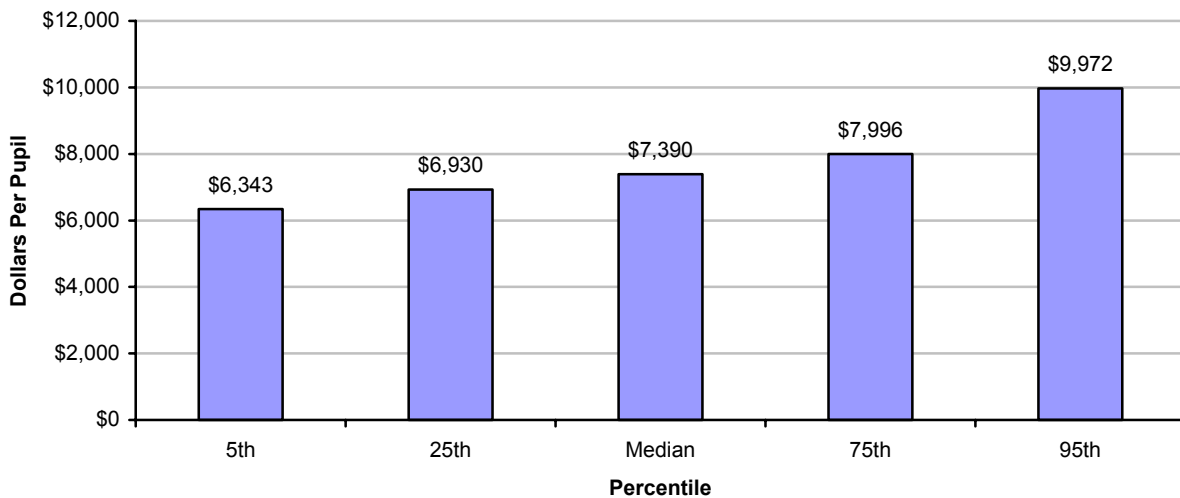


Source: MDE, February 2003 Forecast Data

**Percentage of Statewide Enrollment by
Free and Reduced Lunch Concentration of District
October 2002**



**Fiscal Year 2002 PK - 12 Operating Expenditures
Per Average Daily Membership**



(Source: MDE, School District Profiles, 2001-02, Expenditures-Summary Statistics, Column 12)

June 6, 2003
February 2003 Forecast Data

II. K-12 EDUCATION REVENUE
A. School Revenue Trends

School District General Fund Revenue, FY 1991 - 2005*
(State Aids and Property Taxes)

| Fiscal Year | Total Revenue (\$ in Millions) | ADM | ---- Current Dollars ---- | | | | | ----Constant (2003) Dollars** ---- | | |
|-------------|--------------------------------|---------|---------------------------|-------------------------|-----------------------------|----------------|-----------------------|------------------------------------|-------------------------|-----------------------------|
| | | | Revenue Per ADM | Annual Percent Increase | Cumulative Percent Increase | CPI (1984=1.0) | CPI Adjust to 2001 \$ | Revenue per ADM (2001 \$) | Annual Percent Increase | Cumulative Percent Increase |
| 1991 | 3,579.7 | 750,865 | 4,767 | N/A | N/A | 1.3104 | 1.3558 | 6,464 | N/A | N/A |
| 1992 | 3,754.7 | 767,786 | 4,890 | 2.6% | 2.6% | 1.3510 | 1.3151 | 6,431 | -0.5% | -0.5% |
| 1993 | 3,933.6 | 785,072 | 5,010 | 2.5% | 5.1% | 1.3929 | 1.2755 | 6,391 | -0.6% | -1.1% |
| 1994 | 4,174.1 | 799,285 | 5,222 | 4.2% | 9.5% | 1.4263 | 1.2457 | 6,505 | 1.8% | 0.6% |
| 1995 | 4,489.8 | 812,582 | 5,525 | 5.8% | 15.9% | 1.4691 | 1.2094 | 6,682 | 2.7% | 3.4% |
| 1996 | 4,704.0 | 827,588 | 5,684 | 2.9% | 19.2% | 1.5088 | 1.1776 | 6,693 | 0.2% | 3.5% |
| 1997 | 4,803.0 | 838,336 | 5,729 | 0.8% | 20.2% | 1.5510 | 1.1455 | 6,563 | -1.9% | 1.5% |
| 1998 | 5,072.7 | 845,117 | 6,002 | 4.8% | 25.9% | 1.5791 | 1.1251 | 6,753 | 2.9% | 4.5% |
| 1999 | 5,287.5 | 851,729 | 6,208 | 3.4% | 30.2% | 1.6059 | 1.1064 | 6,868 | 1.7% | 6.3% |
| 2000 | 5,608.6 | 852,602 | 6,578 | 6.0% | 38.0% | 1.6525 | 1.0752 | 7,073 | 3.0% | 9.4% |
| 2001 | 5,947.7 | 854,055 | 6,964 | 5.9% | 46.1% | 1.7094 | 1.0394 | 7,238 | 2.3% | 12.0% |
| 2002 | 6,083.7 | 851,536 | 7,144 | 2.6% | 49.9% | 1.7401 | 1.0210 | 7,295 | 0.8% | 12.9% |
| 2003 | 6,488.1 | 850,158 | 7,632 | 6.8% | 60.0% | 1.7767 | 1.0000 | 7,632 | 4.6% | 18.1% |
| 2004 | 6,606.0 | 847,008 | 7,799 | 2.2% | 63.6% | 1.8087 | 0.9823 | 7,661 | 0.4% | 18.5% |
| 2005 | 6,688.0 | 844,975 | 7,915 | 1.5% | 66.0% | 1.8466 | 0.9621 | 7,615 | -0.6% | 17.8% |

* 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 2003 and later are consistent with February 2003 Forecast.

Source: MDE, Division of Program Finance, District Revenue Tables, End of 2003 Legislative Session

Estimated Revenues
 FY 2000 to FY 2005
 State Totals

End of 2003 Legislative First Special Session Calculations

| REVENUES PER OLD LAW ADJUSTED ADM | FY 2000 | FY 2001 | FY 2002 | FY 2003 | FY 2004 | FY 2005 |
|--|---------|---------|---------|---------|---------|---------|
| 1 ADJUSTED ADM (OLD LAW) | 846,749 | 848,064 | 845,485 | 843,852 | 840,419 | 838,078 |
| 2 BASIC | \$4,316 | \$4,588 | \$4,713 | \$5,335 | \$5,254 | \$5,250 |
| 3 EXTENDED TIME | 0 | 0 | 0 | 0 | 66 | 67 |
| 4 COMPENSATORY | 251 | 252 | 260 | 312 | 295 | 302 |
| 5 AOM | 17 | 17 | 17 | 0 | 0 | 0 |
| 6 LEP TOTAL | 41 | 49 | 53 | 62 | 59 | 57 |
| 7 TRAINING & EXPERIENCE | 63 | 47 | 36 | 30 | 20 | 12 |
| 8 SPARSITY | 14 | 16 | 17 | 19 | 20 | 20 |
| 9 TRANSPORTATION SPARSITY | 55 | 58 | 59 | 67 | 66 | 66 |
| 10 OPERATING CAPITAL | 228 | 235 | 236 | 236 | 232 | 232 |
| 11 REFERENDUM OFFSET | 12 | 11 | 0 | 0 | 0 | 0 |
| 12 SUPPLEMENTAL | 10 | 10 | 11 | 0 | 0 | 0 |
| 13 TRANSITION (OLD) | 16 | 11 | 9 | 0 | 0 | 0 |
| 14 EQUITY | 25 | 26 | 43 | 41 | 38 | 52 |
| 15 TRANSITION (NEW) | 0 | 0 | 0 | 0 | 38 | 38 |
| 16 LATE RATIFICATION | 0 | 0 | 0 | 0 | 0 | 0 |
| 17 PENSION ADJUSTMENT | -55 | -55 | -55 | -55 | -56 | -56 |
| 18 ALTERNATIVE ATTENDANCE | 0 | 0 | 1 | 3 | 3 | 4 |
| 19 REFERENDUM | 530 | 580 | 648 | 351 | 512 | 615 |
| 20 DISTRICT COOPERATION | 78 | 0 | 0 | 0 | 0 | 0 |
| 21 GENERAL ED SUBTOTAL = (2) TO (20) = | \$5,602 | \$5,844 | \$6,048 | \$6,401 | \$6,550 | \$6,658 |
| 22 REVENUE CHANGE FROM PRIOR YEAR | N/A | 242 | 204 | 352 | 149 | 108 |
| 23 PERCENT CHANGE FROM PRIOR YEAR | N/A | 4.3% | 3.5% | 5.8% | 2.3% | 1.6% |
| 24 SPECIAL ED REGULAR | 546 | 559 | 603 | 631 | 631 | 631 |
| 25 SPECIAL ED EXCESS | 85 | 104 | 60 | 110 | 110 | 110 |
| 26 SPEC ED CROSS SUBSIDY | 9 | 22 | 0 | 0 | 6 | 13 |
| 27 VOCATIONAL ED | 15 | 15 | 15 | 16 | 16 | 16 |
| 28 DESEGREGATION | 67 | 80 | 96 | 93 | 95 | 95 |
| 29 TOTAL EXCLUDING ONE TIME REVENUES | \$6,323 | \$6,623 | \$6,822 | \$7,250 | \$7,408 | \$7,523 |
| 30 REVENUE CHANGE FROM PRIOR YEAR | N/A | 300 | 199 | 428 | 158 | 115 |
| 31 PERCENT CHANGE FROM PRIOR YEAR | N/A | 4.7% | 3.0% | 6.3% | 2.2% | 1.6% |
| ONE TIME REVENUES | | | | | | |
| 32 T&E REPLACEMENT | 0 | 31 | 0 | 0 | 0 | 0 |
| 33 SPARSITY CORRECTION | 1 | 1 | 0 | 0 | 0 | 0 |
| 34 DEFERRED MAINTENANCE | 0 | 28 | 0 | 0 | 0 | 0 |
| 35 TOTAL ONE-TIME = (32) + (33) + (34) | 1 | 59 | 0 | 0 | 0 | 0 |
| 36 TOTAL SPECIAL EDUCATION = (24) + (25) + (26) = | 640 | 684 | 663 | 741 | 747 | 754 |
| 37 GRAND TOTAL = (29) + (35) = | \$6,324 | \$6,682 | \$6,822 | \$7,250 | \$7,408 | \$7,523 |
| 38 REVENUE CHANGE FROM PRIOR YEAR | N/A | 358 | 140 | 428 | 158 | 115 |
| 39 PERCENT CHANGE FROM PRIOR YEAR | N/A | 5.7% | 2.1% | 6.3% | 2.2% | 1.6% |

Estimated Revenues
 FY 2000 to FY 2005
 State Totals

End of 2003 Legislative First Special Session Calculations

| REVENUES | FY 2000 | FY 2001 | FY 2002 | FY 2003 | FY 2004 | FY 2005 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| 1 ADJUSTED ADM | 846,749 | 848,064 | 845,485 | 843,852 | 828,437 | 824,038 |
| 2 BASIC | 3,654,547,882 | 3,890,649,193 | 3,985,010,675 | 4,502,170,649 | 4,415,927,826 | 4,399,628,817 |
| 3 EXTENDED TIME | 0 | 0 | 0 | 0 | 55,743,572 | 55,743,572 |
| 4 COMPENSATORY | 212,907,936 | 214,091,561 | 220,181,680 | 262,924,651 | 248,342,891 | 252,812,910 |
| 5 AOM | 14,082,351 | 14,052,173 | 13,959,371 | 0 | 0 | 0 |
| 6 LEP TOTAL | 34,915,075 | 41,165,141 | 44,711,632 | 52,355,782 | 49,876,516 | 47,723,706 |
| 7 TRAIN & EXPERIENCE | 53,202,349 | 39,805,381 | 30,735,747 | 25,401,493 | 17,016,849 | 10,307,359 |
| 8 SPARSITY | 12,076,435 | 13,170,675 | 14,098,402 | 16,338,600 | 16,636,062 | 17,031,558 |
| 9 TRANSPORT SPARSITY | 46,919,950 | 49,458,825 | 50,175,266 | 56,569,546 | 55,737,913 | 55,251,651 |
| 10 OPERATING CAPITAL | 193,324,870 | 199,408,086 | 199,153,779 | 198,875,974 | 194,997,191 | 194,241,922 |
| 11 REFERENDUM OFFSET | 10,209,814 | 9,632,947 | 0 | 0 | 0 | 0 |
| 12 SUPPLEMENTAL | 8,538,359 | 8,516,936 | 9,435,774 | 0 | 0 | 0 |
| 13 TRANSITION (OLD) | 13,241,453 | 9,344,774 | 7,615,457 | 0 | 0 | 0 |
| 14 EQUITY | 21,464,549 | 22,065,715 | 36,107,034 | 34,747,085 | 32,203,886 | 43,367,548 |
| 15 TRANSITION (NEW) | 0 | 0 | 0 | 0 | 32,200,586 | 32,078,350 |
| 16 LATE RATIFICATION | -107,714 | 0 | 0 | 0 | 0 | 0 |
| 17 PENSION ADJUSTMENT | -46,299,749 | -46,398,713 | -46,449,901 | -46,565,135 | -46,701,771 | -46,866,955 |
| 18 ALTERN ATTENDANCE | -334,776 | -354,328 | 808,194 | 2,385,562 | 2,392,687 | 3,024,874 |
| 19 REFERENDUM | 448,555,527 | 491,487,693 | 548,176,785 | 296,033,590 | 430,371,649 | 515,278,506 |
| 20 DISTRICT COOPERATION | 65,916,877 | 0 | 0 | 0 | 0 | 0 |
| 21 GENERAL ED SUBTOTAL = (2) TO (20) = | 4,743,161,189 | 4,956,096,060 | 5,113,719,895 | 5,401,237,797 | 5,504,745,856 | 5,579,623,820 |
| 22 REV CHANGE FROM PRIOR YR | N/A | 212,934,870 | 157,623,835 | 287,517,903 | 103,508,058 | 74,877,964 |
| 23 % CHANGE FROM PRIOR YR | N/A | 4.5% | 3.2% | 5.6% | 1.9% | 1.4% |
| 24 SPECIAL ED REGULAR | 462,325,853 | 473,669,236 | 510,043,428 | 532,809,000 | 530,642,000 | 529,164,000 |
| 25 SPECIAL ED EXCESS | 71,803,678 | 88,088,359 | 50,586,269 | 92,443,000 | 92,067,000 | 91,811,000 |
| 26 SPEC ED CROSS SUBSIDY | 7,896,579 | 18,396,000 | 0 | 0 | 5,000,000 | 11,000,000 |
| 27 VOCATIONAL ED | 12,420,830 | 12,474,876 | 12,618,096 | 13,186,673 | 13,186,673 | 13,186,673 |
| 28 DESEGREGATION | 56,350,176 | 68,127,331 | 80,821,408 | 78,255,887 | 79,908,731 | 79,790,617 |
| 29 TOTAL EXCLUDING ONE TIME REVENUES | 5,353,958,305 | 5,616,851,861 | 5,767,789,096 | 6,117,932,357 | 6,225,550,260 | 6,304,576,110 |
| 30 REV CHANGE FROM PRIOR YR | N/A | 262,893,556 | 150,937,235 | 350,143,261 | 107,617,903 | 79,025,850 |
| 31 % CHANGE FROM PRIOR YR | N/A | 4.9% | 2.7% | 6.1% | 1.8% | 1.3% |
| ONE TIME REVENUES | | | | | | |
| 32 T&E REPLACEMENT | 0 | 26,209,444 | 0 | 0 | 0 | 0 |
| 33 SPARSITY CORRECTION | 1,030,000 | 515,000 | 0 | 0 | 0 | 0 |
| 34 DEFERRED MAINTENANCE | 0 | 23,360,000 | 0 | 0 | 0 | 0 |
| 35 TOTAL ONE-TIME =(32) + (33) + (34)= | 1,030,000 | 50,084,444 | 0 | 0 | 0 | 0 |
| 36 TOTAL SPECIAL ED. =(24) + (25) + (26)= | 542,026,110 | 580,153,595 | 560,629,697 | 625,252,000 | 627,709,000 | 631,975,000 |
| 37 GRAND TOTAL = (29) + (35) = | 5,354,988,305 | 5,666,936,305 | 5,767,789,096 | 6,117,932,357 | 6,225,550,260 | 6,304,576,110 |
| 38 REV CHANGE FROM PRIOR YR | N/A | 311,948,000 | 100,852,791 | 350,143,261 | 107,617,903 | 79,025,850 |
| 39 % CHANGE FROM PRIOR YR | N/A | 5.8% | 1.8% | 6.1% | 1.8% | 1.3% |

**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% |

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, School Year 1999-2000, and School Year 2000-2001 editions, Table 5.*

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

B. 2003-2004 Elementary Secondary Education Revenue Summary*

| Program | Total Revenue (\$ Millions) | Revenue Per Pupil in ADM | Percent of Total Revenue |
|---------------------------|--------------------------------|-----------------------------|--------------------------|
| General Education** | \$ 5,115.8 | \$ 6,040 | 69.2% |
| Referendum | 430.4 | 508 | 5.8% |
| Special Education | 639.0 | 754 | 8.6% |
| Other General Programs*** | 420.8 | 497 | 5.7% |
| Subtotal General Fund | 6,606.0 | 7,799 | 89.3% |
| Food Service | 10.4 | 12 | 0.1% |
| Community Service | 154.0 | N/A **** | 2.1% |
| Debt Redemption | 625.8 | 739 | 8.5% |
| Total All Funds | \$ 7,396.2 | \$ 8,732 **** | 100.0% |
| ADM Pupils | 847,008 | | |

* 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 (\$121.8), Alternate Facilities Annual Levy/Aid Revenue (\$39.9), Building Lease Levies (\$41.0), Charter School Building Lease Aid (\$18.3), Desegregation/Integration Revenue (\$80.1), Nonpublic Transportation Aid (\$21.9), 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 2003 Legislative Session.

C. General Education Revenue by Component: 2003-2004 Estimate

| Component | Number of Districts | Amount (Millions) | Percent of Total |
|--|---------------------|-------------------|------------------|
| <u>Formula – Based Revenue:</u> | | | |
| Basic | 343 | \$ 4,415.9 | 79.6% |
| Extended Time | 183 | 55.7 | 1.0% |
| Basic Skills: | | | |
| Compensatory | 340 | 248.3 | 4.5% |
| LEP, including concentration | 196 | 49.9 | 0.9% |
| Sparsity | 80 | 16.6 | 0.3% |
| Transportation Sparsity | 343 | 55.7 | 1.0% |
| Training & Experience | 216 | 17.0 | 0.3% |
| Operating Capital | 343 | 195.0 | 3.5% |
| Equity | 322 | 32.2 | 0.6% |
| Transition | 216 | 32.2 | 0.6% |
| Pension Adjust | 342 | (46.7) | - 0.8% |
| Alternative Attendance Adj. | 230 | 2.4 | 0.0% |
| PSEO-College | N/A | 18.8 | 0.3% |
| Shared Time | N/A | 3.9 | 0.1% |
| Contract Alternative | N/A | 18.9 | 0.3% |
| Subtotal | 343 | \$ 5,115.8 | 92.2% |
| <u>Referendum-Based Revenues:</u> | | | |
| Oper. Referendum | 285 | 430.4 | 7.8% |
| Grand Total Revenue | 343 | \$ 5,546.2 | 100.0% |

Source: MDE, Division of Program Finance, End of 2003 Legislative 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

Formula Allowances:

| | | <u>Total</u> | - | <u>Trans</u> | - | <u>AOM/ T&E**</u> | - | <u>Grad Std</u> | - | <u>Coop</u> | = | <u>Net</u> |
|---------|----------|--------------|---|--------------|---|---------------------------|---|-----------------|---|-------------|---|------------|
| 2003-04 | \$4,601* | (\$4,601 | - | \$223 | - | \$14 | - | \$43 | - | \$67 | = | \$4,254) |
| 2002-03 | \$4,601* | (\$4,601 | - | \$223 | - | \$14 | - | \$43 | - | \$67 | = | \$4,254) |
| 2001-02 | \$4,068* | (\$4,068 | - | \$197 | - | \$0 | - | \$43 | - | \$67 | = | \$3,761) |
| 2000-01 | \$3,964* | (\$3,964 | - | \$192 | - | \$0 | - | \$43 | - | \$67 | = | \$3,662) |
| 1999-00 | \$3,740* | (\$3,740 | - | \$181 | - | \$0 | - | \$43 | - | \$0 | = | \$3,516) |
| 1998-99 | \$3,530* | (\$3,530 | - | \$171 | - | \$0 | - | \$0 | - | \$0 | = | \$3,359) |
| 1997-98 | \$3,581* | (\$3,581 | - | \$174 | - | \$130 | - | \$0 | - | \$0 | = | \$3,277) |
| 1996-97 | \$3,505* | (\$3,505 | - | \$170 | - | \$130 | - | \$0 | - | \$0 | = | \$3,205) |
| 1995-96 | \$3,205 | | | | | | | | | | | |
| 1994-95 | \$3,150 | | | | | | | | | | | |
| 1993-94 | \$3,050 | | | | | | | | | | | |
| 1992-93 | \$3,050 | | | | | | | | | | | |
| 1991-92 | \$3,050 | | | | | | | | | | | |
| 1990-91 | \$2,953 | | | | | | | | | | | |

* For comparison with earlier years, amounts rolled into the formula allowance since 1995-96 should be deducted, as shown in parentheses at right. Amount shown in AOM/T&E column for 2001-2002 is for AOM roll-in; amount in this column for 1996-97 and 1997-98 is for T&E roll-in, which is reversed in 1998-99. In addition to the deductions shown, \$100 of referendum revenue was rolled into the formula beginning in 1994-95, and \$415 of referendum revenue was rolled into the formula beginning in 2002-03; these changes provided additional revenue to districts with referendum allowances below the roll-in amount, and tax relief to other districts.

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.*

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. 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.

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

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

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

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 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).

$$2) \text{ Concentration Revenue } = \frac{\text{LEP enrollment} \times \$250}{\text{LEP concentration factor}}$$

- 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.

4. 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.

5. Transportation Sparsity

- Funds added costs of providing transportation in districts with fewer than 200 pupil units per square mile. (Transportation funding for all districts of \$223 per pupil unit 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.

6. Training & Experience (T&E)

- 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.

7. Operating Capital

- 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.

8. Equity

- 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.
- For qualifying districts with no referendum levy, revenue allowance = \$10.

- For qualifying districts with a referendum levy, revenue allowance = \$10 + up to \$55, depending on how far the district's revenue per pupil unit is below the regional 95th percentile (sliding scale).

9. Transition

Transition revenue guarantees 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, will 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.

10. 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.

11. 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.

12. Post-Secondary Enrollment Options (PSEO)

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

13. On-Line Learning

- Beginning in FY 2004, school districts and charter schools providing on-line learning generate on-line learning aid for courses completed by public school students from other districts or charter schools who were enrolled in a Minnesota public school the year before enrolling in the on-line learning program.
- The on-line learning aid equals 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.

14. 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.

15. 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.

16. 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 \$855.79 per pupil unit (18.6% of formula allowance) or 117.7% of the district's FY 1994 referendum allowance minus \$415. (Sparsity districts exempted.)
- 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 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: 2002 Payable 2003 (FY 2004)

| Levy Type | Amount (\$ inMillions) | Percent of Total Before Reductions |
|--|-----------------------------------|---|
| Formula-Driven Levies: | | |
| Health & Safety | 108.5 | 8.6% |
| Other General Fund* | 162.3 | 12.8% |
| Community Service Fund | 64.3 | 5.1% |
| Debt Service Fund | 116.3 | 9.2% |
| Subtotal, Formula-Driven Levies | 451.4 | 35.7% |
| Voter Approved Levies: | | |
| Operating Referendum | 347.3 | 27.4% |
| Facilities Down Payment | 10.9 | 0.9% |
| Debt Service | 457.3 | 36.0% |
| Subtotal, Voter Approved Levies | 815.5 | 64.3% |
| Total Levy Before Credits | 1,266.9 | 100.0% |
| Credits: | | |
| Market Value Homestead Credit | (68.2) | |
| Market Value Ag Credit | (5.1) | |
| Other Credits | (9.5) | |
| Total Levy After Credits: | 1,184.1 | |

* Other General Fund levies include:
Integration/Desegregation (\$20.9), Building Lease (\$41.0),
Alternative Facilities (\$37.0), and several smaller categorical levies.

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 2002 Payable 2003 levy was 1.0017% of ANTC for school districts with youth after school enrichment programs).
- 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 2004, state aid is provided to “equalize” access to the first \$126/PU using an “equalizing factor” of \$476,000 of referendum market value per pupil unit. In addition, referendum revenue over \$126/PU up to the referendum cap (\$837/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 \$126/PU of the referendum revenue, and the state pays 50%. For referendum revenue over \$126/PU, up to \$837/PU, the local tax levy pays for 86% of the revenue, and the state pays 14%. (*Note: the \$126 is increased to \$405 in FY 2005 and to \$500 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