

MINNESOTA DEPARTMENT OF



K-12 EDUCATION

FINANCE

OVERVIEW

2001-2002

Division of Program Finance
Office of Management Services

December 14, 2001 - revised

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.	2001-02 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 3, 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. Pupil Accounting

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

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

Pupil weights by grade level are as follows:

	<u>FY 1995 – FY 1999</u>	<u>FY 2000 and Later</u>
Pre-K and K Disabled	1.00	1.25
Regular Kindergarten	.53	.557
Grades 1-3	1.06	1.115
Grades 4-6	1.06	1.06
Secondary (Grades 7-12)	1.30	1.30

- c. Adjust 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 adjusted resident pupil units.

- d. AMCPU (FY 2000 only) = .90 X Current Year Adjusted Pupil Units
- + .10 X Prior Year Adjusted Pupil Units

AMCPU (FY 2001 and Later) = Greater of:
Current Year Adjusted Pupil Units or
(.77 X Current Year Adjusted Pupil Units
+.23 X Prior Year Adjusted Pupil Units)

2. 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 2001)

Residential Homestead (and Agricultural Homestead – house, garage and one acre)	
First \$76,000	1.00%
Remainder	1.65%
Remainder of Farm Homestead	
First \$115,000	0.35%
\$115,000 - \$600,000	0.80%
Over \$600,000	1.20%
Farm Nonhomestead	1.20%
Commercial and Industrial	
First \$100,000	2.40%
Remainder	3.40%

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

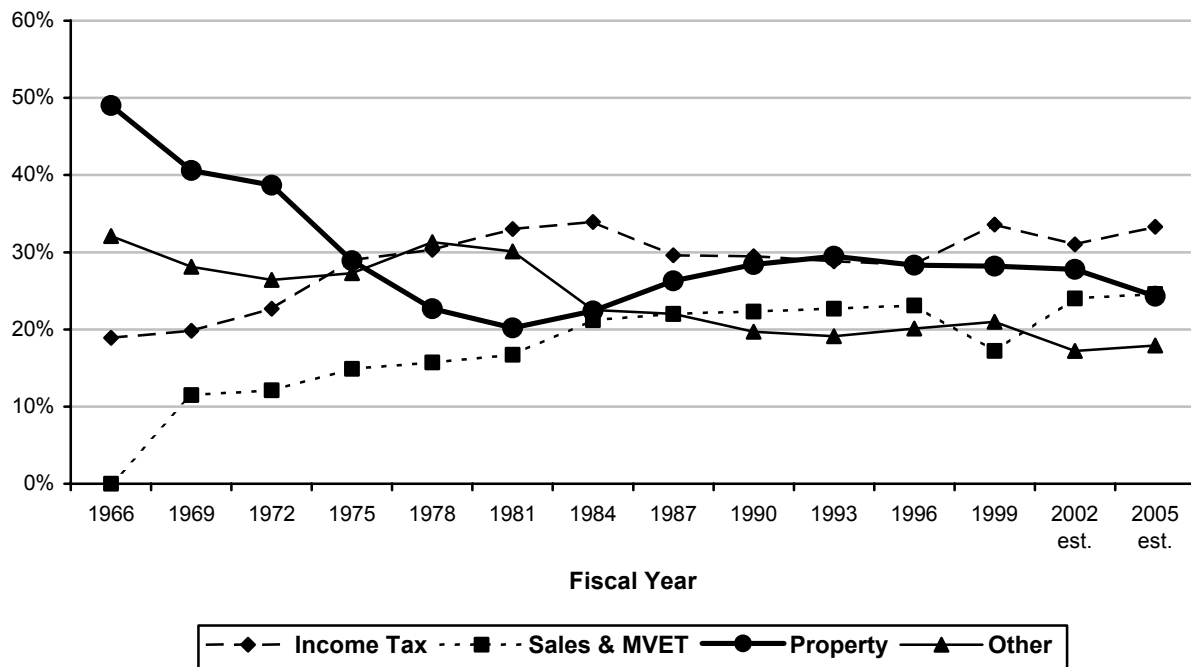
(Computed by State Revenue Department based on comparison of assessor's estimates of market values with actual sales prices.)

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

C. Minnesota Public Finance System

1. Combined State and Local Tax Revenues

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



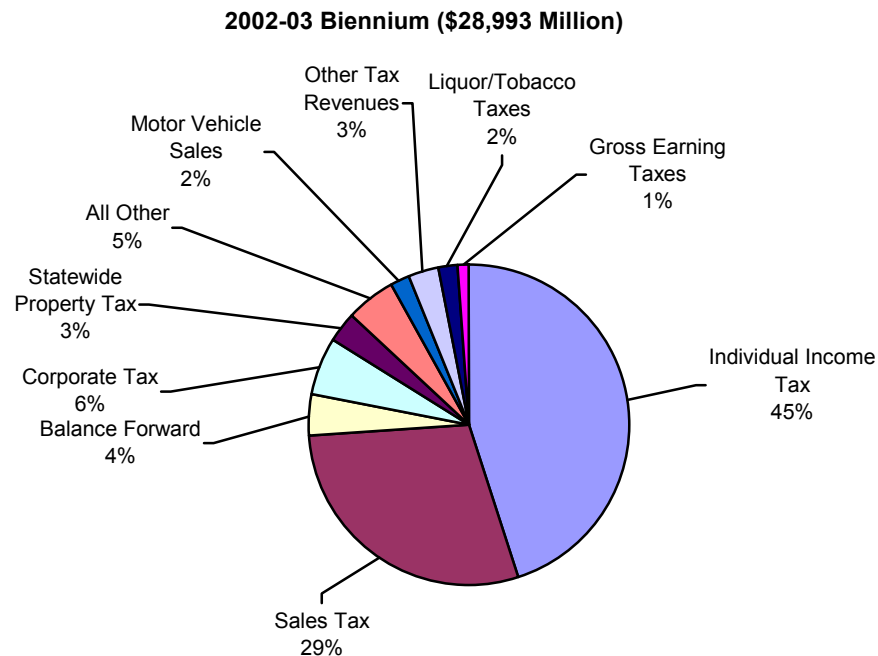
Fiscal Year	Income Tax	Sales & MVET	Property**	Other*
1966	18.9%	0.0%	49.0%	32.1%
1969	19.8%	11.5%	40.6%	28.1%
1972	22.7%	12.1%	38.7%	26.4%
1975	29.0%	14.9%	28.9%	27.3%
1978	30.3%	15.7%	22.7%	31.3%
1981	33.0%	16.7%	20.2%	30.1%
1984	33.9%	21.2%	22.4%	22.5%
1987	29.6%	22.0%	26.3%	22.0%
1990	29.5%	22.3%	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 2001 Legislative Sessions

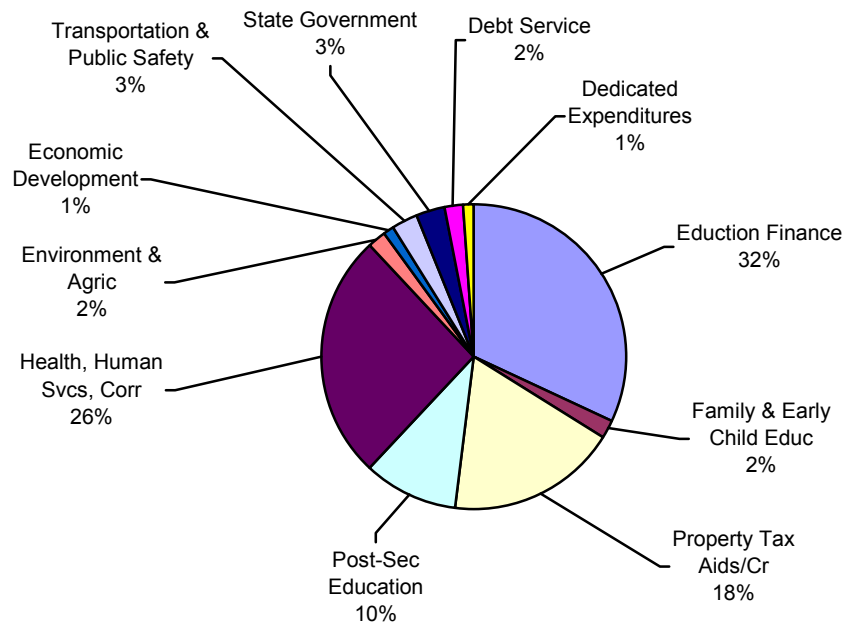


	<u>\$ in Millions</u>
Balance Forward 6-30-01	\$ 1,109
Non-Dedicated Revenues:	
Individual Income Tax	13,064
Sales Tax	8,323
Corporate Tax	1,672
Statewide Property Tax	888
Motor Vehicle Sales Tax	624
Gross Earnings Taxes	377
Liquor, Wine, Beer Taxes	119
Cigarette and Tobacco Taxes	341
Other Tax Revenues	889
All Other Revenues	<u>1,193</u>
Subtotal Non-Dedicated Revenues	27,490
Dedicated Revenue	284
Transfers from Other Funds	90
Prior Year Adjustments	<u>20</u>
SUBTOTAL CURRENT RESOURCES	<u>27,884</u>
TOTAL AVAILABLE RESOURCES – FY 2002-03	\$28,993
Less: Estimated Expenditures	27,604
Cash Flow Account	350
Budget Reserve	653
Dedicated Reserves	<u>151</u>
Projected General Fund Balance 6-30-03 End of 2001 Legislative Sessions	<u><u>\$ 235</u></u>

Source: Department of Finance

3. Where the General Fund Dollars Go – End of 2001 Legislative Sessions

**2002-03 Biennium (\$27,604 Million Spending -
\$350 Million Cash Flow Account - \$653 Million Budget Reserve)**



\$ in Millions

Total Available Resources – FY 2002-03

\$28,993

Major Spending Items:

Education Finance	8,759
Family & Early Childhood Education	544
Post-Secondary Education	2,844
Property Tax Aids and Credits	4,861
Health, Human Services, & Corrections	7,264
Environment & Agriculture	539
Economic Development	390
Transportation & Public Safety	735
State Government	775
Debt Service	630
Estimated Cancellations	<u>(20)</u>

Subtotal – Major Spending Items

\$27,320

Dedicated Expenditures

284

TOTAL ESTIMATED EXPENDITURES – FY 2002-03

\$27,604

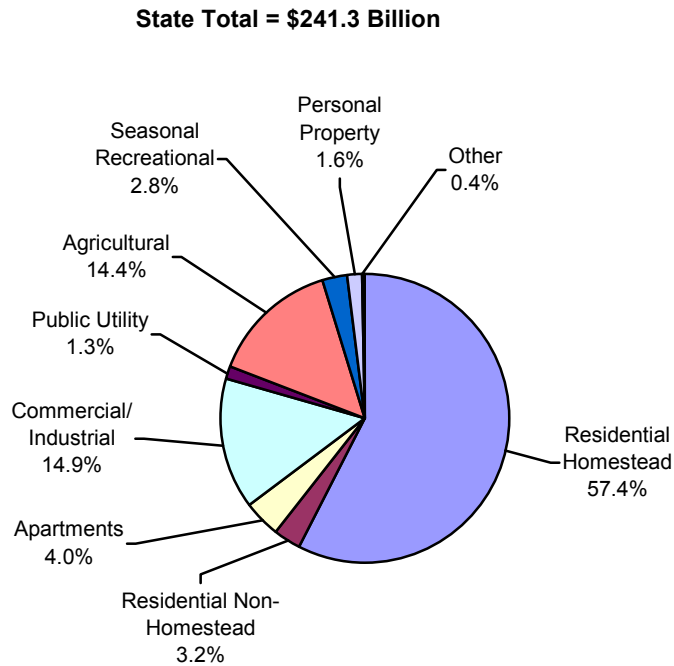
Cash Flow Account	350
Budget Reserve	653
Dedicated Reserves	<u>151</u>

Projected General Fund Balance 6-30-03

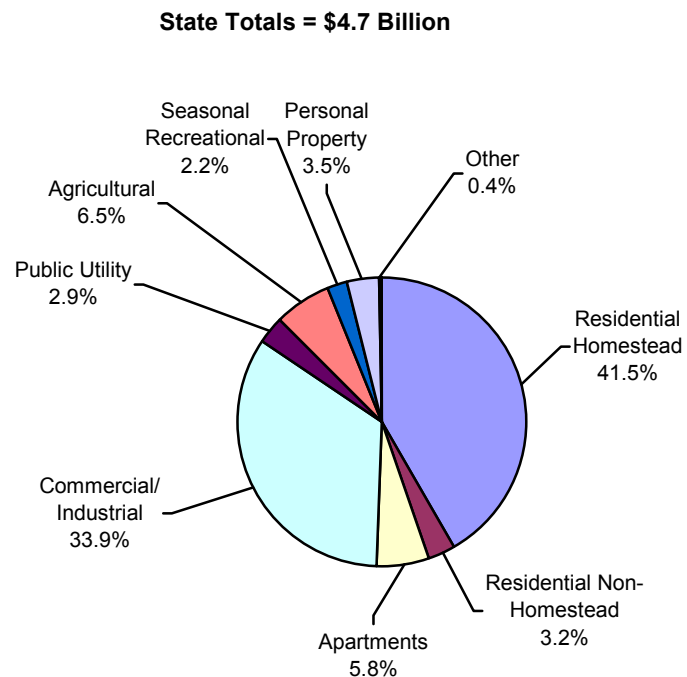
End of 2001 Legislative Sessions \$ 235

Source: Department of Finance

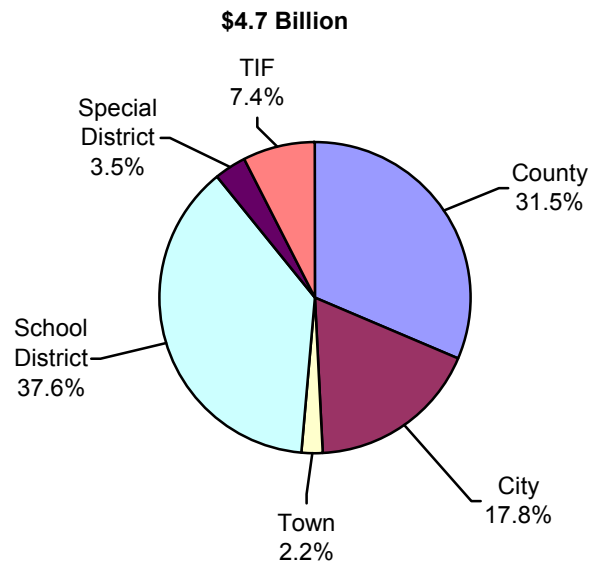
4. Payable 2000 Market Value by Use Class



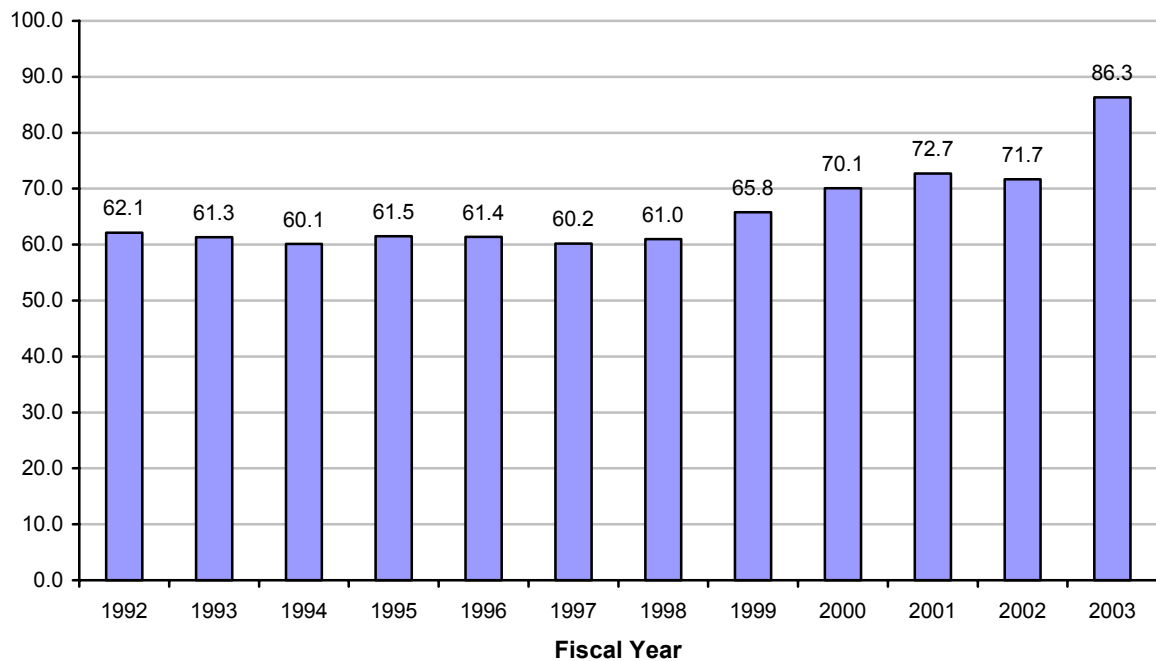
5. Payable 2000 Net Property Tax by Use Class



6. Payable 2000 Property Tax Levy by Type of Government After Credits



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

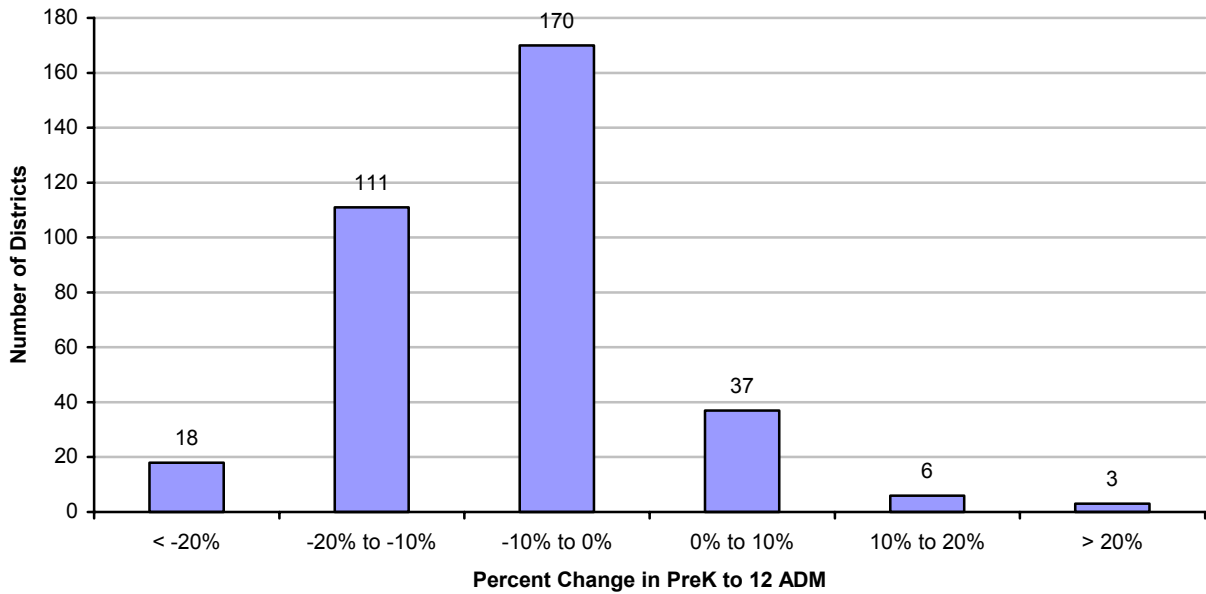


D. Characteristics of School Districts

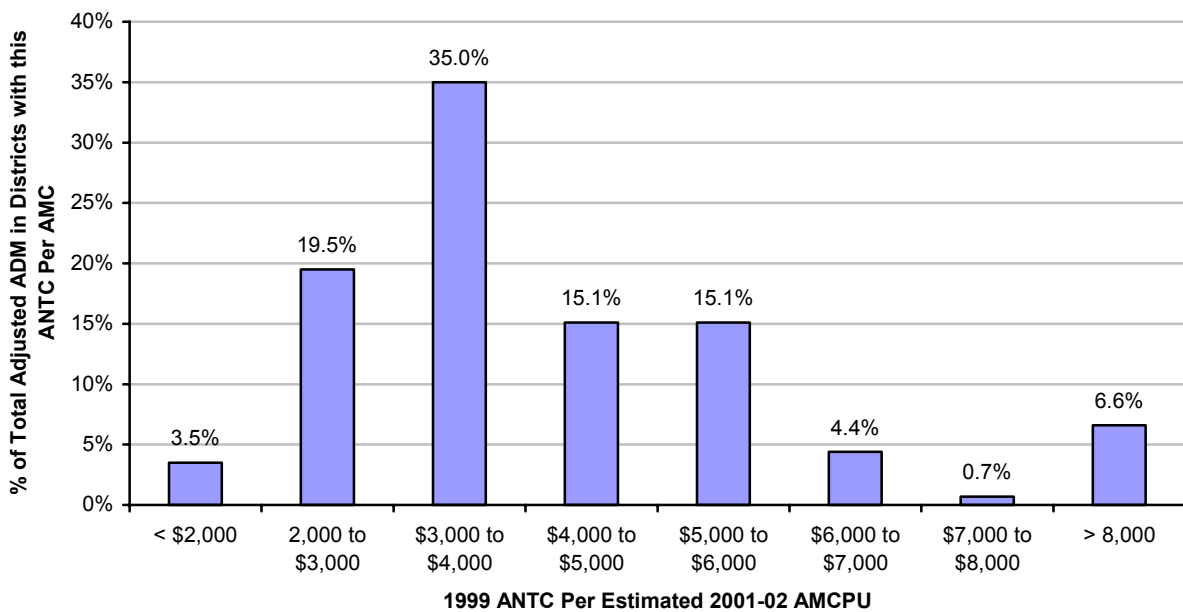
Number of School Districts by Adjusted 1999-00 Average Daily Membership Group

ADM Group	No. of Districts	Total ADM	% of Total ADM
0-299	42	7,798	0.9%
300-999	127	77,855	9.3%
1,000-2,999	114	184,009	21.9%
3,000-9,999	49	257,549	30.7%
10,000 -	15	312,023	37.2%
Total	347	839,234	100.0%

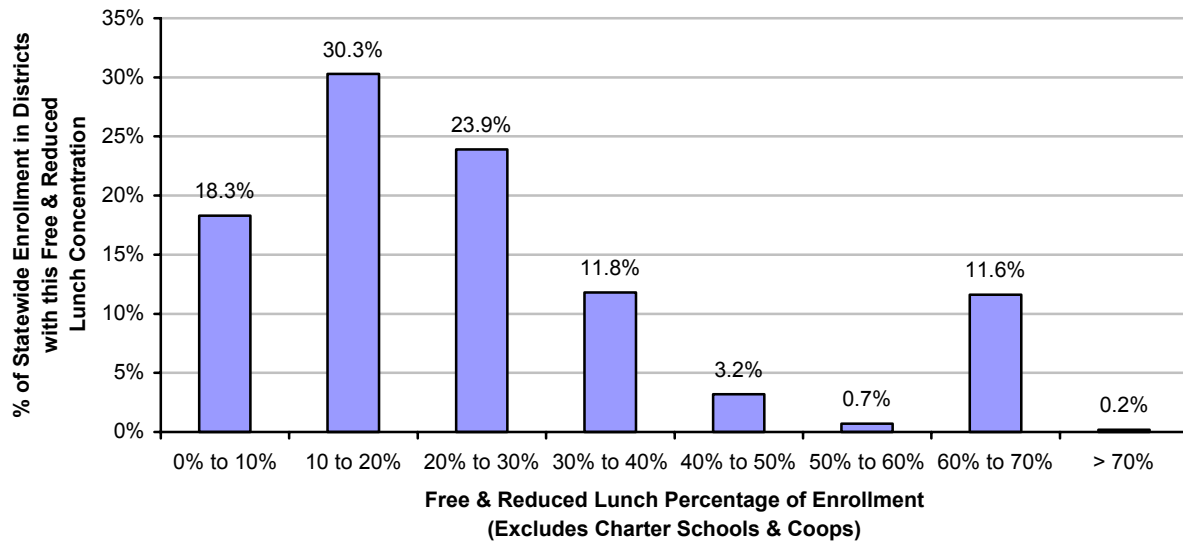
**Estimated Percentage Change in PreK - Grade 12 Adjusted ADM
FY 2001 to FY 2005**



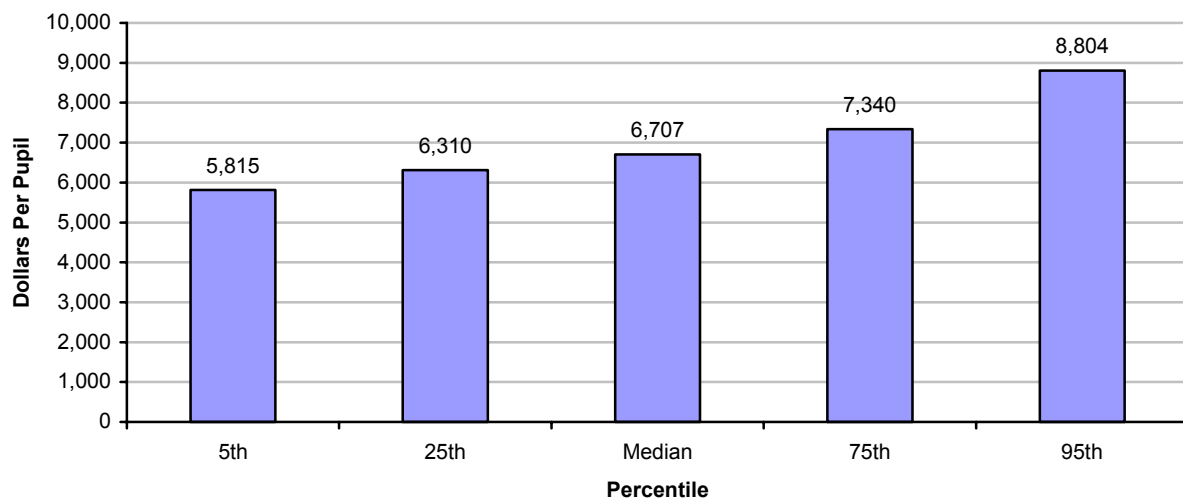
1999 Adjusted Net Tax Capacity (ANTC) Per Estimated 2001-02 AMCPU



**Percentage of Statewide Enrollment by
Free and Reduced Lunch Concentration of District
October 2000**



**Fiscal Year 2000 PK - 12 Operating Expenditures
Per Average Daily Membership**



(Source: CFL, School District Profiles, 1999-00, Page 135, Column 12)

December 4, 2001
November 2001 Forecast Data
Revised

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

School District General Fund Revenue, FY 1991 - 2003*
(State Aids and Property Taxes)

Fiscal Year	Total Revenue (\$ in Millions)	ADM	---- Current Dollars ----					----Constant (2001) 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	1.3043	6,218	N/A	N/A
1992	3,754.7	767,786	4,890	2.6%	2.6%	1.3510	1.2651	6,187	-0.5%	-0.5%
1993	3,933.6	785,072	5,010	2.5%	5.1%	1.3929	1.2271	6,148	-0.6%	-1.1%
1994	4,174.1	799,285	5,222	4.2%	9.5%	1.4263	1.1983	6,258	1.8%	0.6%
1995	4,489.8	812,582	5,525	5.8%	15.9%	1.4691	1.1634	6,428	2.7%	3.4%
1996	4,704.0	827,588	5,684	2.9%	19.2%	1.5088	1.1328	6,439	0.2%	3.5%
1997	4,803.0	838,336	5,729	0.8%	20.2%	1.5510	1.1020	6,314	-1.9%	1.5%
1998	5,072.7	845,117	6,002	4.8%	25.9%	1.5791	1.0824	6,497	2.9%	4.5%
1999	5,287.5	851,729	6,208	3.4%	30.2%	1.6067	1.0638	6,604	1.6%	6.2%
2000	5,608.5	852,602	6,578	6.0%	38.0%	1.6524	1.0344	6,804	3.0%	9.4%
2001	5,961.0	853,857	6,981	6.1%	46.4%	1.7092	1.0000	6,981	2.6%	12.3%
2002	6,117.3	853,572	7,167	2.7%	50.3%	1.7490	0.9772	7,004	0.3%	12.6%
2003	6,489.8	852,960	7,609	6.2%	59.6%	1.7875	0.9562	7,275	3.9%	17.0%

* 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 2002 and later are consistent with November 2001 forecast.

Source: CFL, Division of Program Finance, District Revenue Tables, November 2001 Forecast, Revised 12/04/01

Estimated Revenues Per ADM
1998-99 to 2002-03
State Total

Updated on December 4, 2001
November 2001 Forecast Calculations

FIVEYR2001
12/04/01

	1998-99	1999-00	2000-01	2001-02	2002-03
1 ADJUSTED ADM	845,977	846,749	847,967	847,437	846,559
2 BASIC	\$4,036	\$4,316	\$4,588	\$4,714	\$5,332
3 COMPENSATORY	228	251	252	262	298
4 AOM	16	17	16	17	0
5 LEP TOTAL	26	41	49	55	60
6 TRAIN & EXPERIENCE	91	63	47	33	21
7 SPARSITY	13	14	15	16	18
8 TRANSPORTATION SPARSITY	53	55	58	60	67
9 OPERATING CAPITAL	226	228	235	235	235
10 GRADUATION RULE	96	0	0	0	0
11 REFERENDUM OFFSET	0	12	11	0	0
12 SUPPLEMENTAL	7	10	10	11	0
13 TRANSITION	23	16	11	9	0
14 EQUITY	0	25	26	42	41
15 LATE RATIFICATION	0	0	0	0	0
16 PENSION ADJUSTMENT	-55	-55	-55	-55	-55
17 ALTERNATIVE ATTENDANCE	-25	0	-1	0	1
18 REFERENDUM	482	530	580	649	349
19 DISTRICT COOPERATION	77	78	0	0	0
20 GENERAL ED SUBTOTAL = (2) TO (19) =	\$5,294	\$5,602	\$5,843	\$6,047	\$6,368
21 REVENUE CHANGE FROM PRIOR YEAR	N/A	308	241	204	321
22 PERCENT CHANGE FROM PRIOR YEAR	N/A	5.8%	4.3%	3.5%	5.3%
23 SPECIAL ED REGULAR	463	546	559	604	631
24 SPECIAL ED EXCESS	33	85	117	122	125
25 SPEC ED CROSS SUBSIDY	0	9	22	0	0
26 VOCATIONAL ED	15	15	15	15	0
27 DESEGREGATION	65	67	81	97	93
28 TOTAL EXCLUDING ONE TIME REVENUES	\$5,870	\$6,323	\$6,637	\$6,885	\$7,217
29 REVENUE CHANGE FROM PRIOR YEAR	N/A	453	314	248	332
30 PERCENT CHANGE FROM PRIOR YEAR	N/A	7.7%	5.0%	3.7%	4.8%
ONE TIME REVENUES					
31 T&E REPLACEMENT	0	0	33	0	0
32 SPARSITY CORRECTION	0	1	1	0	0
33 DEFERRED MAINTENANCE	0	0	28	0	0
34 TOTAL ONE-TIME	0	1	61	0	0
35 TOTAL SPECIAL EDUCATION = (23) + (24) + (25) =	496	640	698	726	756
36 GRAND TOTAL = (28) + (34) =	\$5,870	\$6,324	\$6,698	\$6,885	\$7,217
37 REVENUE CHANGE FROM PRIOR YEAR	N/A	454	374	186	332
38 PERCENT CHANGE FROM PRIOR YEAR	N/A	7.7%	5.9%	2.8%	4.8%

Estimated Revenues Per ADM
1998-99 to 2002-03
State Total

Updated on December 4, 2001
November 2001 Forecast Calculations

FIVEYR2001
12/04/01

	1998-99	1999-00	2000-01	2001-02	2002-03
1 ADJUSTED ADM	845,977	846,749	847,967	847,437	846,559
2 BASIC	3,414,079,142	3,654,547,882	3,890,396,448	3,994,599,590	4,513,563,707
3 COMPENSATORY	193,178,962	212,907,936	214,041,955	222,277,800	252,387,766
4 AOM	13,643,898	14,082,351	13,989,911	14,181,208	0
5 LEP TOTAL	22,066,773	34,915,075	41,268,900	46,352,621	51,157,955
6 TRAIN & EXPERIENCE	77,203,053	53,202,349	39,811,025	27,586,343	18,100,873
7 SPARSITY	10,929,570	12,076,435	12,560,912	13,397,371	15,208,553
8 TRANSPORT SPARSITY	44,514,319	46,919,950	49,537,267	50,491,130	56,691,394
9 OPERATING CAPITAL	190,926,197	193,324,870	199,304,290	199,371,526	199,106,721
10 GRADUATION RULE	81,491,578	0	0	0	0
11 REFERENDUM OFFSET	0	10,209,814	9,651,988	0	0
12 SUPPLEMENTAL	5,743,895	8,538,359	8,527,070	9,519,118	0
13 TRANSITION	19,222,439	13,241,453	9,330,004	7,669,593	0
14 EQUITY	0	21,464,549	22,156,527	35,705,214	34,375,299
15 LATE RATIFICATION	0	-107,714	0	0	0
16 PENSION ADJUSTMENT	-46,165,476	-46,299,749	-46,388,026	-46,467,967	-46,582,268
17 ALTERN ATTENDANCE	-21,022,860	-334,776	-1,046,907	-16,644	972,503
18 REFERENDUM	407,776,433	448,555,527	491,446,254	549,929,414	295,690,622
19 DISTRICT COOPERATION	64,822,064	65,912,877	0	0	0
20 GENERAL ED SUBTOTAL = (2) TO (19) =	4,478,409,987	4,743,161,189	4,954,587,619	5,124,596,317	5,390,673,128
21 REV CHANGE FROM PRIOR YR	N/A	264,751,202	211,426,430	170,008,698	266,076,811
22 % CHANGE FROM PRIOR YR	N/A	5.9%	4.5%	3.4%	5.2%
23 SPECIAL ED REGULAR	391,566,821	462,325,853	474,000,000	511,600,038	534,579,205
24 SPECIAL ED EXCESS	27,943,461	71,803,678	99,222,354	103,523,390	105,484,460
25 SPEC ED CROSS SUBSIDY	0	7,960,105	18,634,787	0	0
26 VOCATIONAL ED	12,850,388	12,420,830	12,833,909	12,657,528	0
27 DESEGREGATION	55,375,208	56,350,176	68,723,916	82,012,449	78,839,951
28 TOTAL EXCLUDING ONE TIME REVENUES	4,966,145,865	5,354,021,830	5,628,002,584	5,834,389,721	6,109,576,744
29 REV CHANGE FROM PRIOR YR	N/A	387,875,966	273,980,753	206,387,138	275,187,022
30 % CHANGE FROM PRIOR YR	N/A	7.8%	5.1%	3.7%	4.7%
ONE TIME REVENUES					
31 T&E REPLACEMENT	0	0	27,644,370	0	0
32 SPARSITY CORRECTION	0	997,335	515,000	0	0
33 DEFERRED MAINTENANCE	0	0	23,757,179	0	0
34 TOTAL ONE-TIME	0	997,335	51,916,549	0	0
35 TOTAL SPECIAL EDUCATION = (23) + (24) + (25) =	419,510,282	542,089,636	591,857,140	615,123,428	640,063,665
36 GRAND TOTAL = (28) + (34) =	4,966,145,865	5,355,019,165	5,679,919,132	5,834,389,721	6,109,576,744
37 REV CHANGE FROM PRIOR YR	N/A	388,873,301	324,899,967	154,470,589	275,187,022
38 % CHANGE FROM PRIOR YR	N/A	7.8%	6.1%	2.7%	4.7%

**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%

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 and School Year 1998-99 editions, Table 5.*

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

B. 2001-2002 Elementary Secondary Education Revenue Summary*

Program	Total Revenue (\$ Millions)	Revenue Per Pupil in ADM	Percent of Total Revenue
General Education**	\$ 4,611.4	\$ 5,402	67.8%
Referendum	549.9	644	8.1%
Special Education	616.8	723	9.1%
Other General Programs***	339.2	397	5.0%
Subtotal General Fund	6,117.3	7,167	89.9%
Food Service	11.6	14	0.2%
Community Service	144.9	N/A ****	2.1%
Debt Redemption	531.5	623	7.8%
Total All Funds	\$ 6,805.3	\$ 7,803 ****	100.0%
ADM Pupils	853,572		

* 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 (\$90.1), Alternate Facilities Annual Levies (\$27.3), Building Lease Levies (\$33.6), Telecommunications Access Aid (\$15.0), Desegregation/Integration Revenue (\$81.6), Nonpublic Transportation Aid (\$20.7), 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: CFL, Division of Program Finance, District Revenue Tables and General Education work papers, November 2001 Forecast.

C. General Education Revenue by Component: 2001-2002 Estimate

Component	Number of Districts	Amount (Millions)	Percent of Total
<u>Formula – Based Revenue:</u>			
Basic	343	\$ 3,994.6	77.4%
Basic Skills:			
Compensatory	341	222.3	4.3%
LEP, including concentration	205	46.4	0.9%
\$22.50 X K-8 PU	343	14.2	0.3%
Sparsity	78	13.4	0.3%
Transportation Sparsity	343	50.5	1.0%
Training & Experience	257	27.6	0.5%
Operating Capital	343	199.4	3.9%
Transition	122	7.7	0.1%
Supplemental	36	9.5	0.2%
Equity	322	35.7%	0.7%
Pension Adjust	342	(46.5)	- 0.9%
Alternative Attendance Adj.	267	--	0.0%
PSEO-College	N/A	18.8	0.4%
Shared Time	N/A	3.9	0.1%
Contract Alternative	N/A	13.9	0.3%
Subtotal	343	\$ 4,611.4	89.3%
<u>Referendum-Based Revenues:</u>			
Oper. Referendum	306	549.9	10.7%
Grand Total Revenue	343	\$ 5,161.3	100.0%

Source: CFL, Division of Program Finance, November 2001 Forecast 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>
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 .03 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. (This percentage was set at 1% for FY 2000.) 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.

2. 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.

Compensatory Revenue = Formula Allowance X Compensatory Pupil Units

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

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

- Districts that would have received more under the old formula (based on AFDC counts) are held harmless with compensatory transition revenue.

b. Limited English Proficiency (LEP) Revenue

1) Basic Revenue = \$584 X Adjusted Marginal Cost (AMC) LEP enrollment

- AMC LEP enrollment is greater of current year enrollment or sum of 77% of current year plus 23% of prior year (if AMC LEP enrollment is at least 1 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 \$190 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.

c) AOM Replacement (\$22.50 X K-8 AMCPU)

- Additional Basic Skills Revenue, replacing separate Assurance of Mastery (AOM) categorical. (K-8 AMCPU is greater of current year K-8 adjusted PU or sum of 77% of current year plus 23% of prior year.) Expires after 2001-02.

3. 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.

4. 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 \$197 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.

5. 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 phase out as these staff leave employment with the district.

6. 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.

7. Transition

- Grandfather provision.
- Ensures that no district receives less transportation revenue per pupil unit than the district received in FY 1996 (the last year of separate categorical funding), that no district receives less compensatory revenue than it would have received in FY 1998 under the old AFDC formula.
- Expires after FY 2002; may be rolled into referendum with board resolution.

8. Supplemental

- Grandfather provision, ensuring a minimum increase over the revenue the district received in 1987-88 (the year before the general education formula replaced the previous foundation formula).
- Supplemental allowance per pupil unit has been frozen since FY 1994, except for the supplemental allowance reduction, which began in FY 1995, and an increase to offset the loss of post-secondary options replacement aid, which began in FY 1998.
- Expires after FY 2002; may be rolled into referendum with board resolution.

9. Equity

- Additional revenue for districts with Basic + Referendum + Transition + Supplemental 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).

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. 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.

14. 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.

15. 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 \$1,017 per pupil unit (25% of formula allowance) or the district's 1993-94 referendum allowance. (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.
- Beginning in 2002-03, \$415 is transferred from the referendum revenue allowance to the basic formula allowance, the standard referendum cap is reduced to 18.2% of the formula allowance, and agricultural land and cabin properties are exempt from operating referendum levies.

III. STATE AID AND PROPERTY TAX LEVY COMPUTATIONS

A. K-12 Education Property Tax Levy Summary: 2000 Payable 2001 (FY 2002)

Levy Type	Amount (\$ inMillions)	Percent of Total Before Reductions
Formula-Drive Levies:		
General Education	1,330.7	55.3%
Health & Safety	76.6	3.2%
Other General Fund	92.2	3.8%
Community Service Fund	47.0	2.0%
Debt Service Fund	87.6	3.6%
Subtotal, Formula-Driven Levies	1,634.1	67.9%
Voter Approved Levies:		
Operating Referendum	368.5	15.3%
Facilities Down Payment	2.7	0.1%
Debt Service	401.8	16.7%
Subtotal, Voter Approved Levies	773.0	32.1%
Total Levy Before Credits	2,407.1	100.0%
Credits:		
Educ. Homestead Credit	(394.4)	
Educ. Agriculture Credit	(55.7)	
Other (e.g., HACA)	(28.1)	
Total Levy After Credits:	1,928.9	

* Other General Fund levies include:
Integration/Desegregation (\$15.3), Building Lease (\$33.6),
Alternative Facilities (\$24.3), 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., General Education Levy – tax rate for 2000 Payable 2001 levy was 32.41% 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 2002, state aid is provided to “equalize” access to the first \$415/PU. The “equalizing factor” for ANTC-based referendum levies is \$8,404/PU. If a district’s ANTC/WADM is 1/3 of this amount, district property tax payers pay 1/3 of the first \$415/PU of the referendum revenue, and the state pays 2/3.

Example #2: Health & Safety

State aid is provided to “equalize” this levy, using an “equalizing factor” of \$3,956. 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.

Example #3: Debt Service

State aid is provided to “equalize” the portion of the levy that exceeds 12% of the district’s ANTC, using an “equalizing factor” of \$4,000. If a district’s ANTC is \$1 million, the district’s ANTC/WADM is 60% of \$4,000, and the initial debt levy is \$150,000, the district levies for all of the first \$120,000 and 60% of the remaining \$30,000; the state pays 40% of the remaining \$30,000.

- 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