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Minnesota School Finance
A Guide for Legislators

This guidebook is a reference for the Minnesota school finance system, the method by which funds are provided to operate public elementary and secondary schools.

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Introduction

The Minnesota school finance system is the method by which funds are provided to operate public elementary and secondary schools. Historical, legal, and descriptive information provide the context for understanding the school finance system.

Historical and Legal Information

Public education in the United States is the legal responsibility of state government. In Minnesota, as in most states, the state constitution charges the legislature with responsibility for public schools:

The stability of a republican form of government depending mainly upon the intelligence of the people, 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.

(Minn. Const., art. XIII, § 1)

Minnesota delegates responsibility for the actual operation of schools to local school districts whose powers and duties are prescribed by state statute. Historically, the property taxes levied by the school boards governing these school districts have been the primary source of revenue for running schools. Some time after 1900, property taxes were supplemented by limited amounts of state appropriations for aid to school districts. By 1970-71, the Minnesota state foundation aid program provided all districts a flat grant per pupil unit (a pupil unit is a weighted enrollment measure) and provided some districts an additional "equalized" amount which varied inversely with a district's property valuation. Under this system, state aid funded about 43 percent of the cost of running schools, and school expenditures per pupil varied widely from district to district. Local property taxes rose rapidly in all districts in the late 1960s, and the tax rate for schools also varied widely among districts.

The 1971 Legislature addressed these disparities by substantially increasing the amount of equalized state foundation aid per pupil unit and imposing a uniform statewide limit on the property tax rate for schools. The 1973 Legislature eliminated flat grants and established a system whereby the amount of foundation aid program revenue available per pupil unit to low-spending districts would be increased to the state average over a six-year period. From 1973 to 1983, the legislature adjusted the foundation aid formula several times making it more responsive to differences among districts and altering the relationship between local tax effort and state aid, without changing the formula's basic structure.

The 1983 Legislature enacted a new foundation aid program that became effective in the 1984-85 school year. The new program replaced several components of the previous foundation aid formula (i.e., discretionary, replacement, grandfather, and low-fund balance aids and levies) with five tiers of optional aids and levies. The main characteristics of the new five-tier program were equal access to revenues, recognition of some specific cost differences, and more discretion on the part of school boards in choosing the necessary level of revenue.

The 1987 Legislature replaced the foundation aid program with a modified funding formula called the general education revenue program effective for the 1988-89 school year. The general education formula has changed slightly since 1989 but its primary characteristics and major components have remained relatively stable since that time. For fiscal year 2003 and later, each school district's general education revenue is the sum of the following components: basic revenue, compensatory revenue, basic skills

revenue, training and experience revenue, operating sparsity revenue, transportation sparsity revenue, and operating capital revenue. General education revenue is the primary source of general operating funds for Minnesota's 343 school districts and roughly 70 charter schools. Operating expenses of the district include employee salaries, fringe benefits, and supply costs.

School Finance Litigation

During the 1970s and early 1980s, 29 states in addition to Minnesota adopted legislation to reform the school finance system by enacting or improving equalization formulas, which provide more state aid to districts with low property wealth. In many states, including Minnesota, court challenges to the constitutionality of traditional school finance systems added to the pressure for reform.

The earliest challenges under the Equal Protection Clause of the Fourteenth Amendment to the United States Constitution ("...nor shall any state...deny to any person within its jurisdiction the equal protection of the laws") were unsuccessful. These challenges claimed that the only permissible variations among public school expenditures should be based on "educational needs." This standard was found to be too political and unclear for a court to apply.

The second round of challenges under the Fourteenth Amendment proposed the standard of "fiscal neutrality." Fiscal neutrality means that the quality of a child's education, measured by the amount expended for that education, cannot be permitted to vary according to the property wealth of his or her parents and their neighbors. The taxpayers in a property-poor district cannot be required to pay a higher tax rate than taxpayers in a property-rich district to attain the same quality of education for their children. This standard was first endorsed by the California Supreme Court under the federal and state equal protection clauses in its 1971 decision, which refused to dismiss the complaint in *Serrano v. Priest*. In short order, a number of other courts also adopted the standard of fiscal neutrality, including the Minnesota federal district court in its October 1971 decision upholding the validity of the claim in *Van Dusartz v. Hatfield*. This round of litigation came to an abrupt halt in March 1973 when the U.S. Supreme Court reversed a lower court's fiscal neutrality decision under the Fourteenth Amendment in *San Antonio Independent School District v. Rodriguez*.

The third round of school finance litigation is occurring under the equal protection and education provisions of state constitutions. The *Serrano* case in California went to trial in 1974, and both the trial court and the state supreme court (in 1977) found that the school finance system violated the state equal protection clause under the principles of fiscal neutrality. Legal theories for suits under state constitutions' education clauses also include the arguments that school finance systems must provide for minimum levels of pupil achievement (e.g., New Jersey), must ensure that districts have the minimum resources necessary to supply a basic education (e.g., Washington, Ohio, West Virginia), must respond to differences among districts' tax burdens, costs, and needs (e.g., New York, Wisconsin), or cannot predominantly base the availability of funds on voters' willingness to approve taxes (e.g., Ohio, Pennsylvania). Challenges to school finance systems are pending in many states.

In 1993, the Minnesota Supreme Court reversed an earlier trial court decision and held the state's school finance system constitutionally permissible. The ruling in *Skeen v. State of Minnesota* stemmed from a lawsuit filed in 1988 by 52 outer ring suburban and rural school districts representing 25 percent of the state's K-12 enrollment. The suit claimed that Minnesota's school finance system was unconstitutional because the finance system was not uniform and school districts received disparate amounts of government aid.

The plaintiff school districts challenged the constitutionality of the referendum and debt service levies that are based upon local property taxes and the training, experience, and supplemental revenues that are fully equalized state aid components of the general education revenue program.

The Minnesota Supreme Court declared the issues in the case to be “whether the state’s present system of education finance is sufficient to meet the state constitutional requirement that the legislature ‘establish a general and uniform system of public schools’ and provide sufficient financing to ‘secure a thorough and efficient system of public schools throughout the state’.”

The court ruled that education in Minnesota is a fundamental right and that the current system of education finance satisfies that right. The court found that “all plaintiff [school] districts are provided with an adequate level of education which meets or exceeds the state’s basic education requirements and ... are given sufficient funding to meet their basic needs.” The court used the term “adequate” or “adequacy” to mean the measure of need that must be met and not some minimal floor. The court’s ruling establishes the minimum standard the state must meet in designing an education funding system that is constitutional.¹

Descriptive Information for Minnesota

Public elementary and secondary education is provided via a financial partnership between the state and 343 local school districts and more than 70 charter schools. These school districts and charter schools exhibit diversity in terms of enrollment, local property wealth, and expenditure levels, as shown in Table 1. In 1999-2000, a full-time equivalent professional staff of 60,687 served approximately 850,000 students. In 1999-2000, there were also an estimated 86,000 pupils enrolled in nonpublic schools and 13,638 students attending homeschools.

Minnesota’s public schools enrollment has recently stabilized after a decade of moderate growth. Table 2 displays the state total enrollment history and projections for the period from 1959-60 to 2014-15.

The state and federal governments share in financial partnership with local districts and charter schools to fund elementary and secondary education. For the 1999-2000 school year, the state provided approximately 59 percent of the operating costs of elementary and secondary education. Local revenue sources (primarily property taxes and fees for services such as school lunch) provided approximately 37 percent of 1999-2000 operating revenues, and the federal government provided approximately 4 percent.

The bulk of state support for elementary and secondary education is distributed to the districts through the general education revenue program, which provides money for the current operating expenditures of the districts. The remaining portion of the state’s appropriation to local districts is provided through special purpose or categorical aids, such as special education aid and local property tax relief aids. The state programs that provide financial aid to Minnesota school districts are described in the following pages.

¹ For further information on the *Skeen* decision, see *Skeen vs. State of Minnesota, The School Finance Lawsuit*, House Research Department, September 1993.

Table 1
Characteristics of Minnesota Independent School Districts, 1999-2000 School Year

	Maximum	95th Percentile	Median	5th Percentile	Minimum	State Total
Average Daily Membership Served	49,650	9,263	1,041	188	31	843,711
Professional Staff (full-time equivalent)	4,155	628	80	20	0*	60,687
1998 Adjusted Net Tax Capacity Per Pupil Unit	\$18,918	\$8,635	\$3,788	\$1,874	\$0**	\$3,598,757,000
Total PK-12 Operating Expenditures per Weighted Average Daily Membership	\$19,447	\$8,804	\$6,707	\$5,815	\$4,086	\$5,947,361,000
<p>* Two districts, Franconia and Prinsburg, are nonoperating districts and have no teachers. ** The Pine Point school district exists entirely within the Park Rapids school district and has no tax base. Sources: School District Profiles, 1999-2000 State of Minnesota, Department of Children, Families and Learning; Research Department, Minnesota House of Representatives.</p>						

House Research Department

Table 2
School Enrollment 1959-60 to 2014-15 by School Type

School Year	Traditional Public School		Charter School		Traditional Nonpublic		Homeschool	
	Average Daily Membership	Percent Change From Prior Year	Average Daily Membership	Percent Change from Prior Year	Enrollment	Percent Change From Prior Year	Enrollment	Percent Change from Prior Year
1960	*	671,682	-		158,560	-		
1961	*	692,136	3.0%		163,253	3.0%		
1962	*	713,461	3.1		167,909	2.9		
1963	*	739,735	3.7		171,968	2.4		
1964	*	768,089	3.8		174,265	1.3		
1965	*	794,302	3.4		173,534	-0.4		
1966	*	818,255	3.0		169,207	-2.5		
1967	*	844,554	3.2		161,523	-4.5		
1968	*	871,510	3.2		150,596	-6.8		
1969	*	899,597	3.2		137,319	-8.8		
1970	*	914,857	1.7		124,934	-9.0		
1971	*	921,957	0.8		118,091	-5.5		
1972		914,018	-0.9		106,392	-9.9		
1973		903,778	-1.1		99,139	-6.8		
1974		893,465	-1.1		94,023	-5.2		
1975		884,648	-1.0		92,128	-2.0		
1976		874,961	-1.1		91,893	-0.3		
1977		856,964	-2.1		91,793	-0.1		
1978		831,250	-3.0		90,919	-1.0		
1979		803,311	-3.4		88,524	-2.6		
1980		772,101	-3.9		90,954	2.7		
1981		751,373	-2.7		91,077	0.1		
1982		729,105	-3.0		91,803	0.8		
1983		710,971	-2.5		92,302	0.5		
1984		700,167	-1.5		92,760	0.5		
1985		695,776	-0.6		92,822	0.1		
1986		699,191	0.5		90,530	-2.5		
1987		708,446	1.3		87,208	-3.7		
1988		716,125	1.1		85,043	-2.5	2,322	
1989		723,599	1.0		82,165	-3.4	N/A	
1990		733,338	1.3		80,650	-1.8	2,900	24.8%
1991		750,864	2.4		81,262	0.8	N/A	
1992		767,787	2.3		80,743	-0.6	5,086	75.4
1993		785,072	2.3	47	81,631	1.1	N/A	
1994		799,285	1.8	615	81,697	0.1	7,671	50.8
1995		812,582	1.7	1,046	83,435	2.1	9,135	19.1
1996		827,588	1.7	1,514	84,278	1.0	10,519	15.2
1997		838,335	1.3	2,138	83,955	-0.4	12,145	15.5
1998		846,610	1.0	3,292	85,122	1.4	13,081	7.7
1999		851,729	0.8	4,991	85,988	1.0	13,638	4.3
2000		852,602	0.1	7,553	88,508	2.9		
2001	**	853,857	0.1	10,289	89,680	1.3		
2002	**	853,572	0.0					
2003	**	852,960	-0.1					
2004	**	850,873	-0.2					
2005	**	849,859	-0.1					
2006	**	849,916	0.0					
2007	**	848,918	-0.1					
2008	**	847,160	-0.2					
2009	**	843,971	-0.4					
2010	**	842,595	-0.2					
2011	**	841,610	-0.1					
2012	**	841,688	0.0					
2013	**	843,332	0.2					
2014	**	844,988	0.2					
2015	**	847,232	0.2					

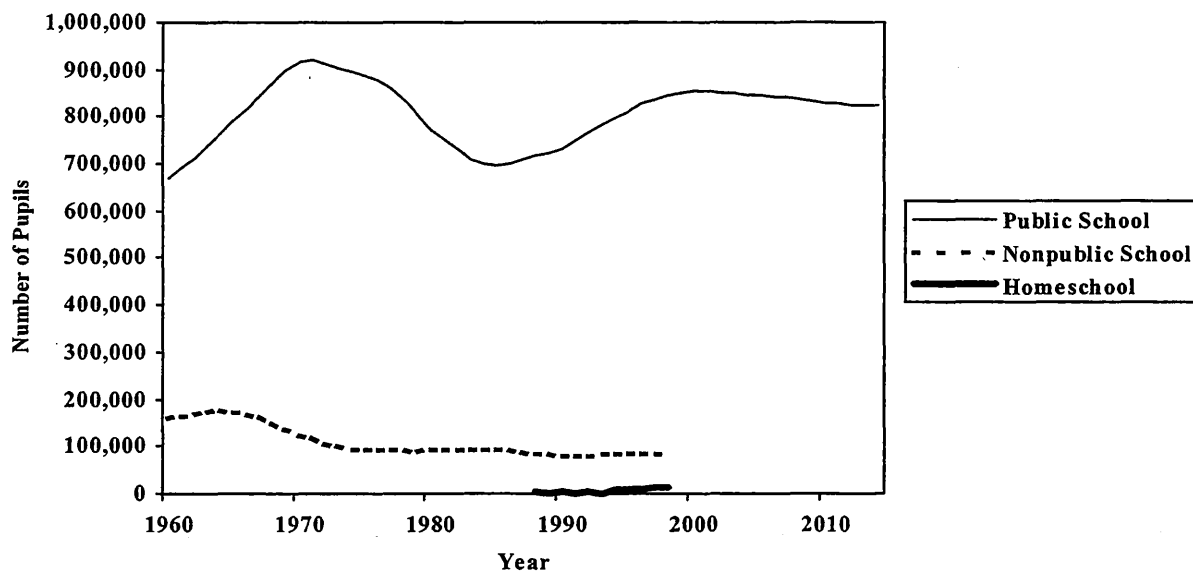
* Fall enrollment count

** Estimated

Source: Pupil Unit Estimates, Minnesota Department of Children, Families and Learning.

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Table 3
Minnesota School Enrollment
1960 to 2015



- Notes: 1. Public school enrollment from 2002 to 2015 is estimated.
2. Homeschool enrollment counts are not available for years prior to 1988.

Basic School Finance Terms and Concepts

The following terms and concepts are essential to understand Minnesota's school finance program.

Adjusted Marginal Cost Pupil Units: The counts of pupils used for most school funding formulas. The count is adjusted (meaning student served), marginal (the greater of the current year's count, or 77 percent of current year's count and 23 percent of the previous year's count), and weighted by grade level (pupil units).

Adjusted Net Tax Capacity (ANTC): The net tax capacity of a school district as adjusted by the sales ratio. The purpose of the adjustment is to neutralize the effect of different assessment practices among the taxing jurisdictions of the state.

Average Daily Membership (ADM): The sum for all pupils of the number of days in the district's school year each pupil is enrolled, divided by the number of days the schools are in session.

Categorical Aid: Funds paid by the state to school districts and designated for specific purposes, such as transportation, special education for disabled children, and vocational education.

Elementary Sparsity Revenue: Revenue available to small, sparsely populated school districts. Elementary sparsity revenue is part of general education revenue. To qualify for elementary sparsity revenue, a district must have an elementary school that is at least 19 miles from the next nearest elementary school and have an average of 20 or fewer students per elementary grade.

Equalizing Factor: The maximum amount of adjusted net tax capacity per pupil unit a district may have without going "off the formula"—that is, becoming disqualified from receiving basic general aid. A district receives no general education aid when the amount raised by the general education tax rate times its adjusted tax capacity exceeds its general education revenue (i.e., number of pupil units times the formula allowance). The general education equalizing factor is computed by dividing the basic formula allowance by the general education tax rate. For fiscal years 2003 and later, there is no longer a general equalizing factor as the general education tax rate is zero. Many other school funding program formulas have a statutorily fixed equalizing factor.

Table 4
Equalizing Factor

Year Certified	Year Paid	School Year	Equalizing Factor
2000	2001	2001-02	\$12,242
1999	2000	2000-01	10,970
1998	1999	1999-00	9,650
1997	1998	1998-99	9,704
1996	1997	1997-98	9,372
1995	1996	1996-97	8,591
1994	1995	1995-96	9,211
1993	1994	1994-95	9,025
1992	1993	1993-94	9,935
1991	1992	1992-93	11,051
1990	1991	1991-92	11,553
1989	1990	1990-91	11,228

Fiscal Year: A 12-month period between settlements of financial accounts. The fiscal year for the state and school districts runs from July 1 through June 30 and is identified by the calendar year in which it ends. For example, fiscal year 2000 runs from July 1, 1999, through June 30, 2000. A fiscal year is interchangeable with a school year for school finance purposes. For example, fiscal year 2000 is equivalent to the 1999-2000 school year.

Formula Allowance: The dollar amount per pupil unit used to calculate each district's basic general revenue—the "front end" of the formula.

Table 5
Formula Allowance

School Year	Formula Allowance
2002-03	\$4,601
2001-02	4,068
2000-01	3,964
1999-2000	3,925
1998-99	3,530
1997-98	3,581
1996-97	3,505
1995-96	3,205
1994-95	3,150
1993-94	3,050
1992-93	3,050
1991-92	3,050
1990-91	2,953
1989-90	2,838

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General Education Aid: Funds paid by the state to school districts as part of the general education revenue program and permitted to be used for any operating expense. Replaces foundation aid.

General Education Tax Rate: The tax rate that when multiplied by the adjusted net tax capacity of all districts, raises the dollar value specified in statute. Prior to levies made in 1985, the legislature set the tax rate instead of the total dollar value that was to be raised. The general education tax rate equals zero for fiscal years 2003 (taxes payable in 2002) and later.

Table 6
General Education Levy

Year Certified	Year Paid	Adjusted Net Tax Capacity Rate	Dollars Raised Statewide
2001	2002	0.0%	\$0
2000	2001	32.38	1,330,000,000
1999	2000	35.78	1,330,000,000
1998	1999	36.58	1,285,500,000
1997	1998	36.9	1,292,000,000
1996	1997	37.4	1,359,000,000
1995	1996	40.8	1,359,000,000
1994	1995	34.2	1,055,000,000
1993	1994	34.9	1,044,000,000
1992	1993	30.7	969,800,000
1991	1992	27.9	916,000,000
1990	1991	26.4	840,000,000
1989	1990	26.3	792,000,000
1988	1989	29.3	1,100,580,000

(Adj. Gross Tax Cap.)

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General Education Revenue: General education revenue is the primary formula for providing general operating funds to school districts and charter schools and is composed of basic general education revenue; basic skills revenue, including compensatory revenue; training and experience revenue; elementary and secondary sparsity revenue; transportation sparsity revenue; operating capital; and equity revenue.

Levy: A tax imposed on property. The amount of property taxes which a school board may levy is limited by statute. Each autumn, the Minnesota Department of Children, Families and Learning computes the exact amounts of the limits on the permitted levies for each district. For levies based on adjusted tax capacity, the previous year's adjusted tax capacity value is used. Each year, school boards hold truth-in-taxation hearings and vote on how much to levy and "certify" the levy to the county auditor. A levy certified in the late fall is collected in the calendar year beginning the following January. (See Table 58 on page 100 for illustration of the relationship among the years for valuation, certification, collection, and use of levies.)

Net Tax Capacity (NTC): This value is derived by multiplying the estimated market value of each parcel by the appropriate class (use) rate for that parcel. Class rates for taxes payable in 2002 and later range from 0.45 percent on certain homesteads owned by disabled persons (residential homesteads with market values of less than \$500,000 are subject to a class rate of 1 percent) to 2 percent for most commercial/industrial property.

Nonresident School District: The district providing educational services to a student (same as serving school district for funding purposes).

Pupil Units: A weighted count of pupils in average daily membership used in the calculation of state aid and local tax levies.

1. Annual Enrollment Weighted by Grade

Pupil units, called actual pupil units, or weighted average daily membership (WADM), are equal to the number of full-time pupils times the appropriate pupil unit weight by grade.

Table 7
Enrollment Weights by Grade

Fiscal Year	Kindergarten Weight	Grades 1-3 Weight	Grades 4-6 Weight	Secondary Weight
2003	.557	1.115	1.06	1.30
2002	.557	1.115	1.06	1.30
2001	.557	1.115	1.06	1.30
2000	.557	1.115	1.06	1.30
1999	.53	1.06	1.06	1.30
1998	.53	1.06	1.06	1.30
1997	.53	1.06	1.06	1.30
1996	.53	1.06	1.06	1.30
1995	.53	1.06	1.06	1.30
1994	.515	1.03	1.03	1.30
1993	.50	1.0	1.0	1.30
1992	.50	1.0	1.0	1.30
1991	.50	1.0	1.0	1.35
1990	.50	1.0	1.0	1.35

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The additional kindergarten and elementary pupil weights for fiscal years 1994 and later provide reserved revenue that must be set aside to reduce elementary class sizes.

2. Compensatory Pupil Units

Compensatory revenue is provided to school sites through the compensatory revenue component of the general education formula based on the number of students at the site eligible for free or reduced price meals. The formula is often referred to as a concentration formula because as the concentration of students eligible for free or reduced price meals increases, the compensatory revenue per compensatory pupil also increases. While the concentration principle has stayed the same over time, the actual calculation of compensatory pupil units has changed several times in recent years.

Compensatory pupils are counted and calculated at the site where the students are being educated. A pupil is counted as a compensatory pupil if the pupil is eligible for free or reduced price meals. Eligibility for free and reduced price meals is set by the federal government at 130 percent and 185 percent of the federal poverty guidelines, respectively (for fiscal year 2002, these percentages limited yearly income for a family of four to not more than \$22,945 and \$32,653). The compensatory pupil count is conducted during the fall at each school site.

Compensatory pupil units are calculated for each site as follows:

- (1) Multiply 100 by the ratio of the number of pupils eligible for free lunch plus half of the number of pupils eligible for reduced price meals to the school site's total enrollment;
- (2) Calculate a building weighting factor equal to the lesser of:
 - a) 1; or
 - b) the building's concentration factor divided by .80;
- (3) Multiply the compensation pupils calculated in step (1) by the weighting factor calculated in step (2) by .60.

Resident District: The district where the student's parent or guardian lives.

Serving School District: The district providing educational services to a student.

Sales Ratio: A sales ratio is a statistical measure prepared by the Department of Revenue that measures the difference between the actual sales prices of property and the assessor's market values on those properties. The purpose of the sales ratio is to neutralize the effect of different assessment practices among the taxing jurisdictions of the state. This is a critical component of an equalized system of school financing. The sales ratio is divided into the taxable value (net tax capacity) to obtain the adjusted tax capacity of a school district.

Secondary Sparsity Revenue: Revenue paid to small, sparsely populated school districts. The secondary sparsity revenue formula takes into account the secondary enrollment, the distance between high schools, and the surface area of the district. Secondary sparsity revenue is a component of the general education revenue program.

Tax Capacity Percentages: Statutory classification percentages that are applied to market values. Tax capacity percentages replace classification ratios.

Tax Capacity Rate: The rate arrived at by dividing each district's tax levy amount by the district's total tax capacity. Tax capacity rate replaces the term mill rate.

Transportation Sparsity Revenue: Component of the general education revenue program used to provide additional revenue to school districts that have a relatively low ratio of pupils to the square mile area of the school district.

Uniform Financial Accounting and Reporting Standards (UFARS): Rules and instructions adopted by the former State Board of Education under legislative mandate to govern the methods by which school districts record financial transactions and inform the Department of Children, Families and Learning about their finances.

The following is a list of acronyms that are commonly used when discussing education issues.

Table 8
Education Acronyms

Acronym	Name	Meaning/Use
ADM	Average Daily Membership	Count of resident students attending public school
AMCPU	Adjusted Marginal Cost Pupil Units	Weighted count of students actually served by a public school used to compute most education revenue amounts
ANTC	Adjusted Net Tax Capacity	Taxable tax base adjusted by the sales ratio
EBD	Emotional Behavioral Disorder	Condition characterized by an established pattern of behavior that may include such things as severely aggressive or impulsive behaviors
EHC	Education Homestead Credit	Property tax credit that reduces the general education levy for homeowners
HACA	Homestead and Agricultural Credit Aid	Property tax aid that reduces school levies
HSGI	High School Graduation Incentive Program	Alternative program for students who are not succeeding in a traditional academic setting
IEP	Individual Education Plan	Plan developed by school officials and student's parent or guardian to address educational needs of a special education pupil
K-12	Kindergarten through Grade 12	Grades generally served by public schools
LD	Specific Learning Disability	Condition within the student affecting learning, relative to potential, manifested by interference with learning
LRE	Least Restrictive Environment	Special education term
NTC	Net Tax Capacity	Taxable tax base most levies are spread against
PELRA	Public Employee Labor Relations Act	Laws governing collective bargaining for public employees
PSEO	Post-Secondary Enrollment Options Program	Choice program allowing 11th and 12th grade students to attend post-secondary institutions
T&E	Training and Experience	Category of the general education funding program that generates additional revenue for additional levels of teacher training and experience
WADM	Weighted Average Daily Membership	Count of pupils formerly used in many education funding formulas

Minnesota's Property Tax System Terminology

In order to understand education finance, it is important to have some familiarity with Minnesota's property tax terminology.

Market Value

- ▶ Each individual parcel of property is valued by an assessor. This value is referred to as estimated market value. Estimated market value is the value, as the name implies, that the property would bring in a sale on the open market. In certain circumstances, the assessor is prohibited by law from valuing a property at its full market value; in those cases, the constrained value is called the limited market value.

Tax Rate and Capacity

- ▶ The legislature has established class rates for different types of property (e.g., homestead, commercial, residential, rental, etc.) and the assessor applies the appropriate class rate to the estimated or limited market value of each parcel of property. The resulting value is called tax capacity or net tax capacity. Tax capacity is the value of the property that the property taxes will be levied against for most school funding formulas.
- ▶ The property taxes levied against each parcel of property are computed by the county auditor who adds up the total dollars of property tax levied by each local unit of government and determines what rate of taxation needs to be applied to the tax capacity of the taxing jurisdictions in order to raise that dollar amount.
- ▶ The rate of taxation is called the tax rate. The tax rate is expressed as a percentage of taxable value. A 50 percent tax rate, therefore, raises \$50 for each \$100 of taxable value (tax capacity).
- ▶ The property taxpayer receives a statement listing the total tax rate levied by each taxing jurisdiction (school district, county, and city or township) and the total dollar amount of taxes owed. A preliminary version of this statement, called the Notice of Proposed Property Taxes, is sent out in November each year. The final version is sent out the following spring.
- ▶ The taxpayer makes two payments to the county treasurer for the total taxes owed and the county treasurer then forwards the remitted amounts to the appropriate taxing jurisdiction.

General Education Revenue Program

Elementary and secondary schools receive the bulk of their general operating funds from the state through the general education revenue program. For fiscal year 2003 and later, general education revenue is provided entirely through state aid payments.

Components of General Education Revenue

The general education revenue funding formula is the primary source of general operating funds for school districts. Statewide, approximately two-thirds of school districts' total revenue comes from the general education program. Each school district's general education revenue is the sum of the components shown in table 9. The table shows each general education revenue component, name, revenue amount, and the number of districts eligible for the revenue for that year.

Table 9
General Education Revenue Components
Fiscal Year 2003

General Education Revenue Component		Amount of Revenue	Number of Eligible Districts
1	Basic Formula Allowance	\$4,513,600,000	343/343
2	Basic Skills (including compensatory)	303,500,000	343/343
3	Operating Sparsity (elementary and secondary)	15,200,000	79/343
4	Transportation Sparsity Revenue	56,700,000	343/343
5	Operating Capital Revenue	199,100,000	343/343
6	Equity Revenue	34,400,000	322/343
7	Training and Experience (T&E) Revenue	18,100,000	223/343
8	Referendum Offset Revenue	0	0/343
9	Supplemental Revenue	0	0/343
10	Transition Revenue	0	0/343
11	Pension Reduction	-46,600,000	342/343
Total General Education Revenue		\$5,094,000,000	

Minnesota's 343 school districts and roughly 70 charter schools use general education revenue to pay for the operating expenses of the district including employee salaries, employee benefits, and supply costs. General education revenue, except for the portion of revenue attributable to compensatory revenue, which must be passed through to each school site, is provided to school districts and each local school board determines how to allocate that money among school sites and programs subject to certain legislative restrictions.

1. Basic Education Revenue

Basic education revenue for each district equals the product of the formula allowance multiplied by the adjusted marginal cost pupil units for the school year. Adjusted marginal cost pupil units is a statutorily defined count of pupils in daily attendance.² The basic formula allowance for the 2002-03 school year is \$4,601 per adjusted marginal cost pupil unit (AMCPU).

(Minn. Stat. § 126C.10, subd. 2)

Table 10
Basic Education Formula Allowances

School Year	Formula Allowance
2002-03	\$4,601
2001-02	4,068
2000-01	3,964
1999-2000	3,925
1998-99	3,530
1997-98	3,581
1996-97	3,505
1995-96	3,205
1994-95	3,150
1993-94	3,050
1992-93	3,050
1991-92	3,050
1990-91	2,953
1989-90	2,838

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² Pages 10 and 11 provide additional information on pupil unit weights and calculations.

2. Basic Skills Revenue

Basic skills revenue consists of compensatory revenue, assurance of mastery revenue, and limited English proficient (LEP) revenue.

Compensatory Revenue. The vast majority of basic skills revenue is generated by the compensatory revenue formula. Compensatory revenue is site-based revenue. The revenue is calculated based on the characteristics of each school site and the revenue must be distributed to, and spent on, qualifying programs at each site. Compensatory revenue must be used to meet the educational needs of pupils whose progress toward meeting state or local content or performance standards is below the level that is appropriate for learners of their age.

Eligible uses of compensatory revenue include:

- ▶ providing direct instructional services under the assurance of mastery program;
- ▶ providing remedial instruction in reading, math, and other core curriculum;
- ▶ adding teachers and teacher aides to provide more individualized instruction;
- ▶ lengthening the school day, week, or year (including summer school);
- ▶ providing staff development consistent with each site's site plan;
- ▶ purchasing instructional materials and technology;
- ▶ implementing programs to reduce truancy, encourage graduation, and provide a safe and secure learning environment;
- ▶ providing bilingual, bicultural, and LEP programs;
- ▶ providing all day kindergarten;
- ▶ providing parental involvement programs; and
- ▶ other methods to increase student achievement.

Compensatory revenue must be reserved in a separate account and each district must produce an annual report describing how compensatory revenue has been spent at each site within the district.

The formula that generates compensatory revenue is a concentration formula based on each school building's count of students that are eligible for free or reduced price meals.

Compensatory Revenue = Basic Formula Allowance x .6 x Compensatory Pupil Units

Compensatory Pupil Units = $\left(\begin{array}{l} \text{Free} \\ \text{Lunch} \\ \text{Students} \end{array} + (.5 \times \text{Reduced Lunch Students}) \right) \times \begin{array}{l} \text{the lesser of:} \\ 1) \text{ one; or} \\ 2) ((\text{free lunch students} + (.5 \times \\ \text{reduced lunch students})/\text{building} \\ \text{ADM})/.8 \end{array}$

(Minn. Stat. § 126C.10, subd. 3)

The following table displays some characteristics of several selected school buildings and the resulting compensatory revenue.

Table 11
**Compensatory Revenue Characteristics for
 Selected School Buildings for the 2001-02 School Year**

Dist. No.	District Name	Building Name	ADM	Pupils Eligible for Free or Reduced Meals	% of Enrollees Eligible	Compensatory Revenue	Compensatory Revenue/ADM
38	Red Lake	Elementary	540	523	97%	\$1,253,000	\$2,321
1	Minneapolis	Bethune	544	507	93	1,155,000	2,122
1	Minneapolis	Barton	609	100	16	42,000	70
625	St. Paul	Expo	694	334	48	393,000	566
625	St. Paul	Vento	592	557	94	1,274,000	2,152
709	Duluth	East	1,637	121	7	18,000	11
709	Duluth	Lincoln	710	483	68	849,000	1,196
264	Herman	Elementary	73	34	47	34,000	465
833	S. Wash. Cnty.	Park Sr.	1,734	120	7	17,000	10
282	St. Anthony	Sr. High	522	37	7	5,000	10
273	Edina	South View	915	30	3	2,000	2
State Average/Total			845,332	217,196	25.7%	\$217,346,000	\$257

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Limited English Proficient Revenue. Districts receive limited English proficiency (LEP) revenue to provide instruction to students with limited English skills. Programs may include bilingual programs or English-as-a-second-language (ESL) programs. Bilingual education programs provide curriculum instruction to students in their native language. ESL program students are taught to read, write, listen, and speak in English. The state has provided funding for LEP programs since 1980. In 1997, the LEP formula was significantly expanded by adding a pupil concentration formula to the cost-based formula.

There are two parts to the LEP portion of basic skills revenue: the first part or basic formula is a set amount per marginal cost LEP pupil; the second part of the LEP formula is a concentration formula. A school district with at least one student eligible for LEP services has a statutorily assigned minimum LEP pupil count of 20.

$$\text{Basic LEP Revenue} = \$584 \times \text{district's LEP pupil marginal pupil units}$$

$$\text{LEP Marginal Cost Pupil Units} = 77\% \text{ of current year LEP pupils} + 23\% \text{ of the previous year's LEP pupils}$$

LEP Concentration Revenue = \$190 x the district's LEP concentration pupils

LEP Concentration Pupils = LEP pupils x the lesser of
1) one; or
2) (LEP pupils/ADM)/.115%

(Minn. Stat. §§ 124D.58-124D.65; 126C.10, subd. 3)

3. Sparsity Revenue

Secondary Sparsity Revenue. Secondary sparsity revenue provides additional revenue to geographically large districts that have relatively few secondary pupils. The formula measures sparsity and isolation of the district and then provides additional revenue to the district using an assumption about how many pupil units are necessary to run an acceptable secondary program. The formula assumes that a district with 400 secondary pupils in average daily attendance can provide an acceptable secondary program. Therefore, a district with one high school, no matter how few pupils per square mile it has, will not receive any sparsity aid if the district has a secondary average daily membership (SADM) in excess of 400. In addition, the requirement of large geographic size ensures that districts have few pupils due to geographic isolation and not due to a school board's reluctance to provide cooperative programming with a neighboring school district.

Secondary sparsity revenue is computed as follows:

$$\text{Secondary Sparsity Revenue} = \text{Formula Allowance} \times \text{AMCPU} \times \frac{(400 - \text{SADM})}{(400 + \text{SADM})} \times \frac{[(\text{Isolation index} - 23)]}{10}$$

The isolation index is a numerical representation of the sum of the geographic area of the district and the miles to the next nearest high school. Specifically, the isolation index equals the square root of 55 percent of the attendance area plus the number of miles to the next nearest high school. The isolation index is limited to a maximum of 1.5.

(Minn. Stat. § 126C.10, subs. 6 and 7)

Elementary Sparsity Revenue. A school district qualifies for elementary sparsity revenue if it has an elementary school that is located 19 or more miles from the next nearest elementary school and has fewer than 20 pupils per elementary grade. As with secondary sparsity revenue, the more elementary pupils in average daily membership (EADM) attending the school, the lower the elementary sparsity revenue per pupil.

$$\text{Elementary Sparsity Revenue} = \text{Formula Allowance} \times \text{EADM} \times \left(\frac{140 - \text{EADM}}{140 + \text{EADM}} \right)$$

(Minn. Stat. § 126C.10, subs. 6 and 8)

Table 13 (page 26) displays characteristics of the sparsest and densest districts in the state.

4. Transportation Sparsity Revenue

A compromise agreement reached during the 1995 Special Session and affirmed by the 1997 Legislature led to the elimination of the basic transportation funding formulas. In their place, \$170 was added to the basic formula allowance; a new component called transportation sparsity revenue was added to the general education revenue program; and a portion of transition revenue was designed to soften the impact of the funding changes. Transportation sparsity revenue may be used for any general operating purpose. A district is not required to use transportation sparsity revenue for pupil transportation expenses.

Transportation sparsity revenue is computed as follows:

$$\text{Transportation Revenue} = \text{Transportation Sparsity Allowance} \times \text{AMCPU}$$

The following steps are necessary to compute a district's transportation sparsity allowance:

$$\text{Density Index} = \frac{\text{square mile area of the district}}{\text{AMCPU}} \quad \left. \vphantom{\frac{\text{square mile area of the district}}{\text{AMCPU}}} \right\} \text{ but not less than .005 or more than .2}$$

$$\text{Sparsity Index} = \text{the greater of} \\ \text{(a) .2; or} \\ \text{(b) } \frac{\text{square mile of the district}}{\text{AMCPU}}$$

$$\text{Unreduced Transportation Sparsity Allowance} = \left(\text{Basic Formula Allowance} = .1469 \right) \times \left(\text{Sparsity Index}^{26/100} \right) \times \left(\text{Density Index}^{13/100} \right)$$

$$\text{Transportation Sparsity Revenue} = \text{Unreduced Transportation Allowance} - \left(\text{Basic Formula Allowance} \times .0485 \right)$$

(Minn. Stat. § 126C.10, subs. 17 and 18)

5. Operating Capital Revenue

Operating capital revenue replaces two former capital formulas known as equipment revenue and facilities revenue and moves this revenue to each district's general fund. Operating capital revenue must be reserved and used for equipment and facility needs. A school board may spend other general fund money for operating capital expenses, but general fund money generated by the operating capital revenue component must be reserved and spent only for eligible equipment and facilities needs.

(Minn. Stat. § 126C.10, subs. 13, 14, 15, and 16)

Revenue Computation. Operating capital revenue is computed by adding a fixed dollar amount for all districts to a variable amount per pupil unit based on the age of the district's school facilities. The age index is called the maintenance cost index (MCI) and is calculated as follows:

$$\text{Maintenance Cost Index} = \frac{\text{Weighted square footage of buildings}}{\text{Unweighted square footage of buildings}}$$

The weighted square footage of each building is equal to the building's square footage times the lesser of

- (a) 1.50; or
- (b) the sum of 1.0 + (the age of each building or addition /100)

Operating capital revenue provides \$100 per AMCPU times the district's maintenance cost index. Districts with older buildings receive more revenue because of the maintenance cost index. Districts with newer buildings receive less revenue because of the index.

Operating capital revenue for fiscal year 2001 is computed as follows:

$$\text{Operating Capital Revenue} = [\$73 + (\text{MCI} \times \$100)] \times \text{AMCPU}$$

Eligible Uses. Eligible uses of operating capital revenue include:

- ▶ acquiring land for school purposes;
- ▶ acquiring or constructing buildings for school purposes, up to \$400,000;
- ▶ renting or leasing buildings, including the costs of building repair or improvement that are part of a lease agreement;
- ▶ improving and repairing school sites and buildings, and equipping or reequipping school buildings with permanent attached fixtures;
- ▶ using the revenue for a surplus school building that is used substantially for a public nonschool purpose;
- ▶ eliminating barriers or increasing access to school buildings by individuals with a disability;
- ▶ bringing school buildings into compliance with the uniform fire code adopted according to chapter 299F;
- ▶ removing asbestos from school buildings, encapsulating asbestos, or making asbestos-related repairs;
- ▶ cleaning and disposing of polychlorinated biphenyls found in school buildings;
- ▶ cleaning, removing, disposing of, and making repairs related to storing heating fuel or transportation fuels such as alcohol, gasoline, fuel oil, and special fuel, as defined in section 296.01;
- ▶ using the revenue for energy audits for school buildings and for modifying buildings if the audit indicates the cost of the modification can be recovered within ten years;
- ▶ improving buildings that are leased according to section 123.36, subdivision 10;
- ▶ paying special assessments levied against school property but not paying assessments for service charges;
- ▶ paying principal and interest on state loans for energy conservation according to section 216C.37 or loans made under the northeast Minnesota Economic Protection Trust Fund Act according to sections 298.292 to 298.298;
- ▶ purchasing or leasing interactive telecommunications equipment;
- ▶ paying principal and interest payments on certain debt obligations;

- ▶ paying capital expenditure equipment-related assessments of any entity formed under a cooperative agreement between two or more districts;
- ▶ purchasing or leasing computers and related materials; copying machines; telecommunications equipment; and other noninstructional equipment;
- ▶ purchasing or leasing assistive technology or equipment for instructional programs;
- ▶ purchasing textbooks;
- ▶ purchasing and replacing library books;
- ▶ purchasing vehicles;
- ▶ purchasing or leasing telecommunications equipment, computers, and related equipment for integrated information management systems; and
- ▶ paying personnel costs directly related to the acquisition, operation, and maintenance of telecommunications systems, computers, related equipment, and network and applications software.

6. Equity Revenue

Equity revenue was added as a component to the general education revenue formula beginning with fiscal year 2000. The state is divided into a seven-county metro region and a greater Minnesota region and equity revenue is calculated separately for districts within each region. The school districts located in cities of the first class (Minneapolis, St. Paul, and Duluth) are excluded from receiving equity revenue. For fiscal years 2002 and later, a school district's equity revenue is based only on the sum of its basic formula allowance and referendum revenue per pupil unit.

The first step in calculating equity revenue is to determine the 5th and 95th percentiles of the portion of general education revenue equal to the basic formula allowances and referendum revenue for the metro and nonmetro regions. For fiscal year 2003 these percentiles are estimated as follows:

Table 12
Equity Revenue Percentiles
Fiscal Year 2003

	5th	95th
Rural	\$4,601	\$5,505
Urban	4,601	5,829

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The second step in calculating equity revenue is to divide districts into two classes: those with a referendum and those without.

For fiscal year 2002 and later, equity revenue for a district with a referendum equals \$10 plus \$55 times the district's equity index, all times the district's AMCPU. Equity revenue for a district without a referendum equals \$10 times AMCPU.

7. Training and Experience Revenue

Training and experience (T&E) revenue partially compensates school districts that have teachers who have a substantial number of years of service to the school district and higher levels of educational attainment. T&E revenue was temporarily eliminated for the 1996-97 and 1997-98 school years. T&E revenue was partially restored for the 1998-99 school year and is being phased out over time. Under its current structure, a school district's T&E revenue is limited to only those teachers who taught in the district during the 1996-97 school year and are still teaching in the same school district in the current year. To calculate T&E revenue, the Department of Children, Families and Learning develops a matrix of steps and lanes and places each teacher in the district in the appropriate cell within the matrix. The salary of the teachers in each district in each cell is compared to the statewide average salary for all teachers. Training and experience revenue is computed as follows:

$$\text{T\&E revenue} = \$600 \times \text{AMCPU} \times (\text{district's T\&E index number} - 0.8)$$

(Minn. Stat. §§ 126C.11; 126C.10, subd. 5)

8. Referendum Offset Revenue

For fiscal year 2002 and later, referendum offset revenue is eliminated. For fiscal year 2001, a school district that has a referendum that has not been renewed since 1994 was eligible for an additional \$25 times its AMCPU. —

9. Supplemental Revenue

For fiscal year 2003 and later, supplemental revenue is eliminated. Supplemental revenue (often called "hold-harmless" revenue) was created by the 1987 Legislature to provide a floor of revenue that districts would not fall beneath because of the replacement of the foundation program with the general education revenue program. Supplemental revenue cushioned the transition to general education revenue and tended to increase as the formula allowance increased to provide new revenue to the districts that were receiving supplemental revenue. In other words, from fiscal year 1989 to 1993, the floor was increased for districts along with increases in the formula allowance. These actions maintained a fairly constant and ongoing level of supplemental revenue. In 1993, the legislature froze supplemental revenue at the actual dollars of revenue per pupil unit that the district received in the previous year, then offset substantial new amounts of revenue against districts' supplemental revenue. This action reduced supplemental revenue from about \$15 million to approximately \$3 million statewide. For fiscal years 1995 and later, supplemental revenue is equal to the amount of supplemental revenue that the district received in fiscal year 1993 less the offset new revenue. In 1998 and 1999 additional amounts were added to supplemental revenue for a few districts to bring total supplemental revenue to approximately \$8.5 million statewide.

(Minn. Stat. § 126C.10, subs. 9 and 12)

10. Transition Revenue

For fiscal year 2003 and later, transition revenue is eliminated. Transition revenue is another form of supplemental or grandfather revenue. Transition revenue was created by the 1995 Legislature to ameliorate the effects of the elimination of the basic pupil transportation formulas and the training and experience revenue component of general education revenue. In essence, two sets of formulas were eliminated and the statewide average per pupil unit amounts of revenue for each component (\$130 for training and experience revenue and \$170 for transportation revenue) were added to the basic formula allowance, increasing the formula allowance from \$3,205 to \$3,505 per pupil unit. However, districts that had categorical revenue amounts above \$300 lost revenue because of these changes and some districts that had revenue below \$300 per pupil unit had substantial revenue gains. Transition revenue was designed to soften the impact of these revenue changes. The final 1995 legislative compromise eliminated transportation revenue and training and experience revenue for fiscal year 1997 and fiscal year 1998 only. Training and experience revenue was partially restored for fiscal year 1999 and later, so its portion of transition revenue was eliminated. Compensatory transition revenue was added for fiscal year 1998 and later. Cooperation transition revenue was added for fiscal year 2000 and later.

Transition revenue is provided through an equalized aid and levy based on an equalizing factor of \$8,404.

(Minn. Stat. § 126C.10, subs. 19, 20, 21, and 22)

Transportation Transition Revenue. A school district's transportation transition revenue compensates school districts that lose revenue due to the elimination of the transportation formulas. A district's transportation transition revenue is equal to the portion of the district's transportation sparsity allowance in excess of roughly \$200 per pupil unit (see page 19 for details), less the district's transportation base allowance for fiscal year 1996.

For fiscal year 1999 and later, transportation transition revenue equals the following calculations:

$$\text{Transportation Transition Revenue} = \left(\begin{array}{l} \text{Transportation} \\ \text{Sparsity} \\ \text{Allowance} \end{array} - \begin{array}{l} \text{FY 96} \\ \text{Transportation Base} \\ \text{Allowance} \end{array} \right) \times \text{AMCPU}$$

Compensatory Transition Revenue. The 1997 Legislature changed the proxy variable used in the compensatory revenue formula from the number of children from families receiving Aid to Families with Dependent Children (AFDC) to the number of children eligible for free or reduced price meals. The distribution of children receiving free or reduced price meals is different than the distribution of children from AFDC-eligible families. Additionally, other changes in the design of the concentration formula caused most districts to receive substantial increases in compensatory revenue. However, a few districts were made worse off under the new formula. To prevent any district from losing revenue, a transition component was created to ensure that no district received less in compensatory revenue per pupil unit under the new formula than the district would have received under the old AFDC-based compensatory formula for fiscal year 1998 using the AFDC student count from the fall of 1996 and assuming that the basic formula allowance would have been \$3,281 per pupil unit.

Cooperation Transition Revenue. The cooperation revenue program provided school districts with the greater of \$67 per pupil unit or \$25,000 per district. In fiscal year 2001, the cooperation revenue program was eliminated and \$67 was added to the basic formula allowance. In order to preserve the minimum revenue amount of \$25,000 per district, cooperation transition revenue was created. Cooperation transition revenue equals the greater of zero or \$25,000 less the product of \$67 and the district's AMCPU.

11. Teacher Retirement (Pension) Reduction

Some of the changes in the school district employer-paid retirement contributions have been linked to other changes in school funding. Currently, a school district's general education revenue is reduced by two decreases in employer contribution rates and increased by one increase in the Public Employees Retirement Association (PERA) contribution rate. The calculation for the reduction is as follows:

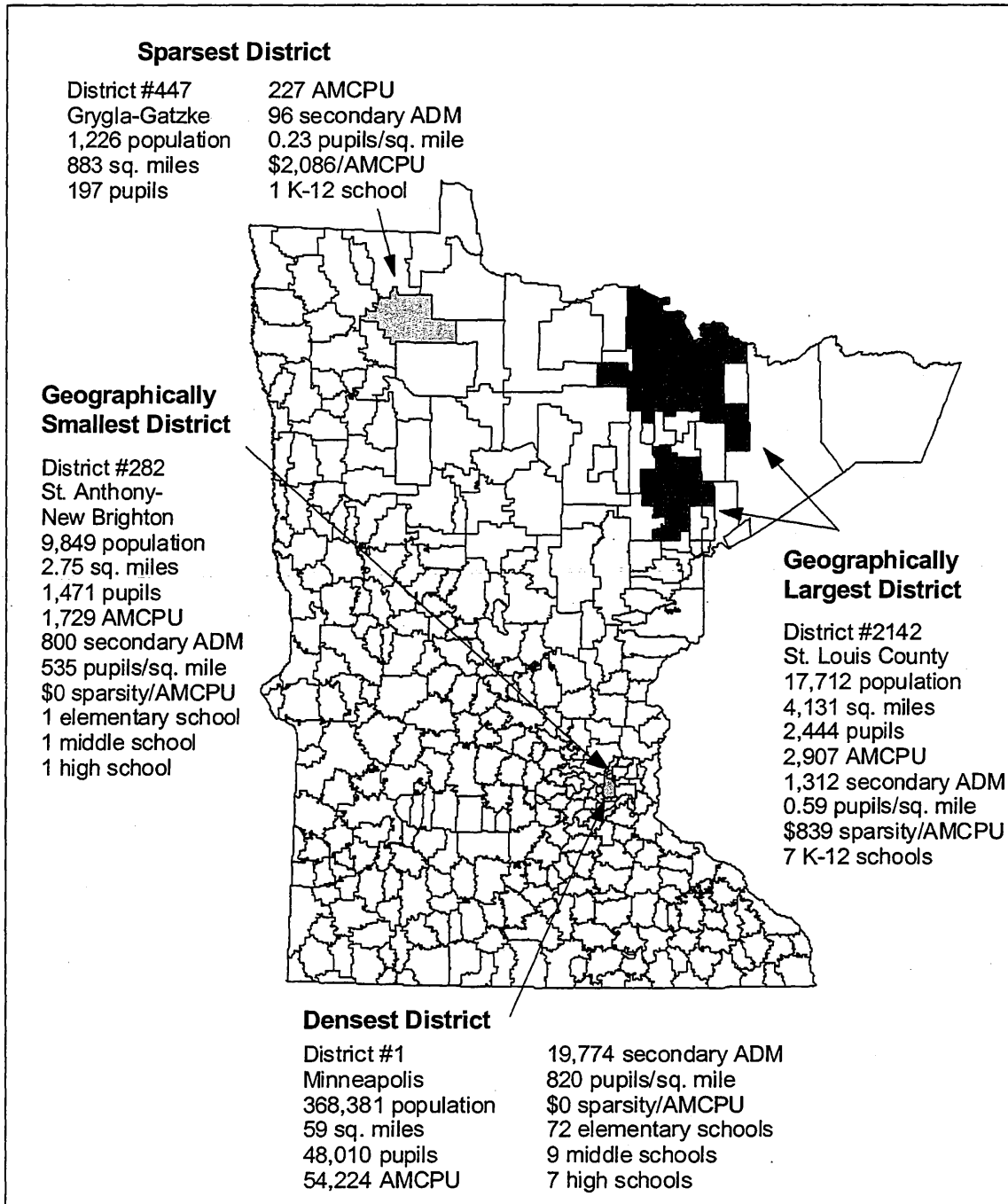
$$\begin{array}{rclclcl} \text{General Education} & = & \text{1984 PERA} & + & \text{FY 1997 TRA} & - & \text{FY 1999 PERA} \\ \text{Retirement Reduction} & & \text{Adjustment} & & \text{Adjustment} & & \text{Adjustment} \end{array}$$

- (1) The 1984 PERA adjustment is equal to the amount of the 1984 PERA rate reduction times the school district's 1984 PERA payroll.
- (2) The FY 1997 TRA (Teachers Retirement Association) reduction equals 2.34 percent times the district's 1997 TRA payroll. (Prior to 1997, the reduction was .84 percent of TRA payroll. This reduction was added to the 2 percent reduction made in 1997, then reduced to the net amount of 2.34 percent after compensating for the PERA revenue increase under (3)).
- (3) The FY 1999 PERA increase equals .70 percent times the district's 1999 PERA payroll.

The reduction is a fixed total dollar amount (not a per pupil amount) and will not change after fiscal year 1999. The reductions apply only to the contributions that districts make to the TRA fund. The reductions do not apply to payments to the first-class city teacher retirement funds.

(Minn. Stat. § 127A.50)

Table 13
Characteristics of Largest and Smallest School Districts
Fiscal Year 2003



Reserved Revenue

School districts are required to reserve a portion of their general education revenue for certain purposes. The reserved amounts and purposes are as follows.

Staff development. For fiscal years 2000 and later, school districts are required to reserve 2 percent of their basic general education revenue (\$92.02 for fiscal year 2003) for staff development purposes.

Class size reduction. For purposes of reducing elementary class sizes to a ratio of 17 students to one classroom teacher, beginning with kindergarten and first grade classes. All of the general education revenue generated by the class size reduction pupil weights must be reserved and spent for this purpose. Once the district achieves a class size of 17:1 in grades kindergarten and one, the district may use the remaining reserved revenue to reduce class sizes in each subsequent elementary grade. Class size reduction revenue, referred to in statute as learning and development revenue, is generated by increasing the kindergarten and weights from .50 to .557; the elementary pupil weights for students in grades one to three from 1.00 to 1.115; and the elementary pupil weights for students in grades four to six from 1.00 to 1.06. Class size reduction revenue is a result of the additional pupil weighting working its way through all of the school finance formulas that are based on adjusted marginal cost pupil units. Class size revenue equals the basic formula allowance times the increased pupil weights and must be reserved and spent only to reduce class sizes in elementary grades. In fiscal year 2001, school districts reserved approximately \$150 million for class size reduction.

Operating capital revenue. For purposes of eligible operating capital expenditures (see page 20 for details), a district must reserve an amount equal to its operating capital revenue.

(Minn. Stat. § 122A.61; 126C.12)

Aid and Levy Calculations

School districts receive general education revenue from state aid payments and local property taxes (charter schools receive their general education revenue entirely in state aid). The mix of aid and levy is designed to equalize local tax burdens. A school finance program that provides the same amount of revenue per pupil unit to each district and requires the same tax rate of local effort is said to be fully equalized. Under an equalized system, the higher a district's property wealth per pupil unit, the lower the amount of general education aid the district receives from the state and the higher the amount of revenue provided through the local district's property tax.

General Education Levy and Aid. For the 2001-02 school year, the total local levy of all districts for the general education program is required to raise \$1,330,000,000. To raise this revenue statewide, a tax rate of 32.41 percent of Adjusted Net Tax Capacity (ANTC) is necessary. For fiscal year 2003 and later, general education revenue is provided entirely in state aid and there is no longer a general education levy.

Referendum Revenue

The referendum revenue program, often referred to as the operating referendum levy or the excess levy referendum, is a mechanism that allows a school district to obtain voter approval to increase its revenue beyond the limits set in statute.

Because of the exceptional growth in the referendum levy in the late 1980s and early 1990s, the legislature has made several changes to the program including: equalizing a portion of the revenue; capping the total amount of per pupil revenue a district may have; limiting the length of time that new referendums may run; and requiring referendums approved after November 1, 1992, to be spread on referendum market value instead of tax capacity.

The 2001 Legislature greatly reduced the referendum levy beginning in fiscal year 2003. Each district's referendum revenue was reduced by \$415 per pupil unit. (A district with less than \$415 per pupil in referendum authority lost the full amount of its authority.) At the same time the referendum was reduced, the basic formula allowance for all districts was increased by \$415 per pupil unit. As a result, referendum revenue was reduced by approximately \$200 million.

(Minn. Stat. § 126C.17)

Referendum Revenue Cap. School districts not eligible for sparsity revenue are subject to a cap on referendum revenue. For fiscal year 2003 and later, a district's maximum total referendum allowance is limited to the greater of 18.2 percent of the formula allowance (\$837 for fiscal year 2003) or for those districts with authority from 1994 that were above the cap—their capped authority increased by 16.2 percent.

Referendum Revenue Equalization. A portion of each district's referendum revenue is subject to equalization. Referendum revenue is computed in two tiers as follows:

Total Referendum Revenue = Resident Pupil Units x Referendum Allowance

Tier 1 Equalization Revenue = the lesser of: (1) \$126 per resident pupil unit; or
(2) the district's total Referendum Revenue

Tier 1 Equalization Levy = Tier 1 Revenue x the lesser of: (1) 1; or
(2) the ratio of district's referendum market value per pupil unit to \$476,000

Tier 1 Equalization Aid = Tier 1 Revenue - Tier 1 Equalized Levy

Tier 2 Equalization Revenue = the lesser of: (1) the district's total referendum revenue less its tier 1 referendum revenue; or
(2) an amount equal to 18.2% of the basic formula allowance times the district's resident pupil units less its tier 1 referendum revenue

Note: Tier 2 equalization revenue for a district eligible for sparsity revenue equals the district's total referendum revenue less its tier 1 referendum revenue

Tier 2 Equalization Levy = Tier 2 Revenue x the lesser of: (1) 1; or
(2) the ratio of the district's market value per pupil unit to \$270,000

Tier 2 Equalization Aid = Tier 2 Revenue - Tier 2 Equalized Levy

Total Referendum Equalization Aid = Tier 1 Aid + Tier 2 Aid

Total Referendum Levy = Total Referendum Revenue - Total Referendum Equalization Aid

Election Requirements. A district's basic maintenance levy can be increased with the approval of the voters at a referendum called by the school board on its own initiative or on petition of 15 percent of the school district residents. The election must be held during the November election only, unless the election is held by mail ballot or upon approval of the Commissioner of Children, Families and Learning, if the district is in statutory operating debt. If the election is conducted by mail ballot, it must be in accordance with state election law and each taxpayer must receive notice by first class mail of the election and of the proposed tax increase at least 20 days before the referendum. A similar election may also be held to reduce or revoke the increase.

Referendum Market Value. Unlike all other school district levies, referendum levies are spread on referendum market value instead of net tax capacity. Referendum market value is the market value of all property within the school district with two exceptions. First all seasonal recreational property (cabins) and farmland are excluded from referendum market value. Second, any property with a class rate of less than 1.0 is taxed at its market value times its class rate.

(Minn. Stat. § 126C.17)

Other General Fund Programs

Shared Time Foundation Aid. Districts receive a proportionate amount of general education aid for nonpublic school pupils who attend public school programs for part of the school day.

(Minn. Stat. § 126C.01, subs. 6-8; 126C.19)

Permanent School Fund Income. General education program aid is reduced by a district's income from the permanent school fund (proceeds of lands dedicated by the federal government at statehood and state swamplands). This is essentially a bookkeeping matter to allocate approximately \$30 million per year of state aid generated by the permanent school fund.

(Minn. Stat. § 126C.21, subd. 1)

County Apportionment Aid. General education aid is reduced by an amount equal to the district's share of county apportionment funds (miscellaneous fines and fees collected by counties and apportioned to school districts).

(Minn. Stat. §§ 127A.34; 126C.21, subd. 3)

School Transportation

School Transportation

The 1995 Legislature made substantial changes to the pupil transportation funding programs. Categorical funding programs were replaced with an across-the-board increase in the general education formula allowance of \$170 per pupil unit and the remaining categorical transportation formulas were reduced in size and scope.

The previous categorical pupil transportation funding formulas provided varying amounts of revenue for each of three different categories (regular services, nonregular services, and excess cost services) of transportation services. As a result, the distinction between required pupil transportation services (state mandated services) and authorized pupil transportation services, where additional funding was generated if the service was provided, was somewhat blurred. The 1995 legislative changes attempted to clarify the state mandate as well as eliminate a series of formulas that were seen by some as creating disincentives for cost efficiency in pupil transportation.

A school district may provide pupil transportation services by operating its own fleet of school buses, contracting with a private vendor of transportation services, or mixing district operated and contracted services.

Required Transportation

The state's basic pupil transportation mandate requires a school board to provide transportation to and from school or to provide board and lodging for all pupils who live **two** miles or more from schools. A school board is required to provide equal transportation for nonpublic school children.

A school board is also required to:

- ▶ provide certain transportation services for disabled children;
- ▶ provide transportation for a nonresident open enrollment pupil from the nonresident (serving) district's border to the school attended; and
- ▶ provide transportation services for resident pupils attending a charter school that is located within the district if the charter school has declined to provide transportation services to its students.

The statute grants school boards sole discretion, control, and management over:

- ▶ scheduling of routes;
- ▶ establishing location of bus stops;
- ▶ manner and method of transportation;
- ▶ control and discipline of school children; and
- ▶ "any other matter related thereto."

Categorical Funding

The 1995 Legislature eliminated most of the categorical transportation funding programs. The majority of the transportation funding was added to the general education revenue program in three parts: \$170 per pupil unit was added to the basic formula allowance; a transportation sparsity component was added to the general education formula; and a grandfathered revenue amount called transition revenue was created to limit the funding shifts resulting from the elimination of the previous transportation funding formulas (see page 20 for details).

Nonpublic pupil transportation revenue equals the sum of the following calculations of regular, excess, and nonregular transportation:

- ▶ for transportation that meets the definition of regular and excess transportation categories according to section 123B.92, an amount equal to the product of:
 - (1) the district's actual expenditure per pupil transported in the regular and excess transportation categories during the second preceding school year; times
 - (2) the number of nonpublic school pupils residing in the district who receive regular or excess transportation service or reimbursement for the current school year; times
 - (3) the ratio of the general education formula allowance for the current school year to the formula allowance for the second preceding school year.

- ▶ for transportation that meets the definition of nonregular transportation according to section 123B.92, excluding special program transportation and late activity transportation, an amount equal to the product of:
 - (1) the district's actual expenditure for nonpublic, nonregular transportation during the second preceding school year; times
 - (2) the ratio of the general education formula allowance for the current school year to the formula allowance for the second preceding school year.

(Minn. Stat. § 123B.92)

Fees for Transportation Services

A school district may charge fees for certain transportation services and is prohibited from charging fees for other transportation services in accordance with the state's general fee policy regarding public school education. Several categories of fees for transportation services are specifically authorized, and fees are specifically prohibited for certain other services.

A school district may charge a fee for:

- ▶ transportation to and from extracurricular activities, where attendance is optional;

- ▶ transportation of pupils to and from school for which aid for fiscal year 1996 is not authorized under Minnesota Statutes 1994, section 124.223, subdivision 1, and for which levy for fiscal year 1996 is not authorized under Minnesota Statutes 1994, section 124.226, subdivision 5, if a district charging fees for transportation of pupils establishes guidelines for that transportation to ensure that no pupil is denied transportation solely because of inability to pay;
- ▶ transportation to and from post-secondary institutions for pupils enrolled under the post-secondary enrollment options program under section 123B.88, subdivision 22. Fees collected for this service must be reasonable and must be used to reduce the cost of operating the route. Families who qualify for mileage reimbursement under section 124D.09, subdivision 22, may use their state mileage reimbursement to pay this fee; and
- ▶ transportation to and from an instructional community-based employment station which is part of an approved occupational experience secondary vocational program. This subdivision shall only be applied to students who receive remuneration for their participation in these programs.

A school board may waive any fee if any pupil or the pupil's parent or guardian is unable to pay it.

A school district is prohibited from charging a fee for:

- ▶ field trips which are required as a part of a basic education program or course; and
- ▶ transportation of pupils for which state transportation aid for fiscal year 1996 is authorized pursuant to Minnesota Statutes 1994, section 124.223, or for which a levy for fiscal year 1996 is authorized under Minnesota Statutes 1994, section 124.226, subdivision 5.

(Minn. Stat. §§ 123B.34-123B.37)

Capital Finance

School districts must finance both ongoing capital needs, such as equipment purchases, repairs, maintenance, and major building construction projects. Major building projects are usually financed at the local level, often with the assistance of state paid debt service equalization aid. Districts borrow money through the sale of bonds and levy an annual tax to repay the money over a period of years. Smaller remodeling projects, equipment purchases, and ongoing capital needs are normally financed by capital revenue programs.

Beginning with the 1996-97 school year, two of the largest capital funding formulas—the equipment formula and the facilities formula—were moved from the capital fund to a reserved account in the general fund. The purpose of this change is to allow districts greater discretion in the use of operating money. The new formulas, named operating capital revenue, are a component of the general education revenue program. School districts may now use general fund operating revenue for capital programs, but operating capital revenue must be used for specified capital purposes and may not be used for general operating purposes.

This section explains the financing methods available to districts to obtain funds for ongoing capital needs and major construction projects.

Major Construction Projects

When a new school building is constructed or when an existing facility is substantially remodeled, a district incurs a substantial financial obligation that must be met immediately. School districts issue bonds to obtain the funds necessary to pay the contractors. The district then pays back the bonds over a period of years with proceeds of the debt service levy and any debt service aid received from the state. Because of the importance and cost of major construction projects, the Department of Children, Families and Learning provides a review and comment on each major project.

Review and Comment on Construction Projects

Any school district that intends to construct an educational facility costing more than \$100,000 must consult with the Commissioner of Children, Families and Learning. The commissioner may require a review and comment on the project. Any project that requires an expenditure of more than \$400,000, except for certain deferred maintenance projects, must be submitted by the district to the commissioner for review and comment.

The commissioner may give the project a positive, unfavorable, or negative review and comment. If the project receives a positive review and comment, the district may hold a referendum to authorize the sale of bonds; upon approval of the voters, the project may proceed. If the commissioner submits an unfavorable review and comment, the local school board must reconsider the project. If the local school board decides to continue with the project, the referendum to authorize the sale of bonds must receive the approval of at least 60 percent of the voters. If the commissioner submits a negative review and comment, the school board cannot proceed with the project.

The findings of the commissioner's review and comment must be published in the legal newspaper of the district prior to a referendum on the construction project.

(Minn. Stat. §§ 123B.70; 123B.71)

Debt Service Revenue

Minnesota's local school districts have generally financed the construction of new school buildings through the sale of bonds. The bonds are repaid with revenue raised from the local district's property tax receipts. The total amount of bonds issued by the district determines the yearly debt service that the district must pay; and the amount of bonds issued is, of course, directly related to the district's building needs. The tax rate that the district levies in order to make its debt service payments depends both on the amount of debt and the size of the district's property tax base. The larger the debt, and the smaller the property tax base, the greater the district's tax rate for debt service needs.

The debt service equalization aid program provides state aid to local school districts to help repay the bonds issued to finance construction. The amount of a school district's debt service that the state will pay depends on two factors: the district's total amount of annual debt service and the district's taxable property tax base (net tax capacity) per pupil.

Debt service amounts that qualify for debt equalization are general debt service amounts for land acquisition, construction costs, and capital energy loans. Net debt is the sum of these amounts reduced by any excess balance that the district has in its debt redemption account. All debt incurred prior to July 1, 1992, will be included in the district's net debt. However, debt incurred after July 1, 1992, must be for facilities that

- ▶ receive a positive review and comment from the Commissioner of Children, Families and Learning;
- ▶ are comparable in size and quality to facilities in other districts; and
- ▶ have been reviewed by all neighboring school districts.

Debt Service Equalization Aid

Debt service equalization aid is available for a school district's qualifying debt service. The debt service revenue is divided into tiers. The first tier applies to the portion of a school district's debt that is below 15 percent of the district's adjusted net tax capacity. The first tier must be provided entirely through the local levy. The second tier applies to the portion of debt revenue between 15 percent and 25 percent of adjusted net tax capacity. This tier is equalized at a relatively low level. A district qualifies for state aid only if its per pupil tax base is less than \$3,200. The remaining debt revenue makes up the third tier. This revenue is equalized at a high rate—\$8,000 per pupil.

The following example shows the calculation of debt service equalization aid for a hypothetical district.

Table 14
**Debt Service Equalization Aid Calculation
for a Hypothetical District**

a	Debt revenue (amount needed to repay bonds)		\$6,000,000
b	Initial unequalized tax rate		40.0%
c	Pupil units used for debt calculation		5,000
d	Tax base (adjusted net tax capacity)		\$15,000,000
e	Tax base/per pupil unit	(d)/(c)	\$3,000
f	Regular equalizing factor		3,200
g	Enhanced equalizing factor		8,000
h	Tier 1: 15% paid locally	(d) * .15	\$2,250,000
	Tier 2: 15% to 25% equalized at \$3,200		
i	Debt revenue in this category	(d) * .10	\$1,500,000
j	Aid percentage	(e)/(f)* (i)	6.3%
k	Levy percentage	(1-(j))* (i)	93.8%
l	First tier aid	(j) * (i)	\$93,750
m	First tier levy	(k) * (i)	\$1,406,250
o	Tier 3: Remaining debt above 25% at enhanced rate	(a)- ((h)+(i))	\$2,250,000
p	Aid percentage	(e)/(g)* (o)	62.5%
q	Levy percentage	(1-(p))* (o)	37.5%
r	Second tier aid	(p) * (o)	\$1,406,250
s	Second tier levy	(q) * (o)	\$843,750
t	Total annual aid	(l) + (r)	\$1,500,000
u	Total annual levy	(d) - (t)	\$4,500,000
v	Total tax rate	(u)/(d)	30.0%
w	Percent of debt revenue from state	(t)/(d)	25.0%

House Research Department

Table 15
Total Statewide Debt Service Amounts

School Year	Debt Service Aid	Net Debt Service Fund Levy Certified
2002-03	\$31,892,000	\$510,000,000
2001-02	25,987,000	489,000,000
2000-01	29,286,000	423,000,000
1999-2000	32,629,000	380,000,000
1998-99	28,193,000	335,000,000
1997-98	35,480,000	345,000,000
1996-97	27,320,000	339,000,000
1995-96	30,054,000	296,000,000
1994-95	27,521,000	267,000,000
1993-94	14,000,000	241,000,000
1992-93	6,000,000	217,000,000
1991-92	0	167,000,000

House Research Department

Down Payment Levy

When approved by a voter referendum, school districts may levy the amount authorized for a down payment on future construction costs. Proceeds of the levy must be placed in a special account and may be used as a down payment on the approved construction project.

(Minn. Stat. § 123B.63)

Maximum Effort School Aid Law

Some districts find it difficult or impossible to finance construction projects through conventional bond sales because the district property tax base is too small. These districts can qualify for state assistance under the Maximum Effort School Aid Law. Under this program, the state borrows money via bond sales and lends it to qualifying school districts on favorable terms. Two types of loans are available: **capital loans** (for new construction projects); and **debt service loans** (to reduce the amount which districts must levy for debt service on completed projects). Qualifying districts can obtain either or both types of loan. A district is eligible for a capital loan only if its net debt tax rate, after any state-paid debt service equalization aid, is more than 40 percent of ANTC.

(Minn. Stat. §§ 126C.62-126C.72)

Capital Loans. The process to obtain a capital loan follows.

1. A school district that intends to apply for a capital loan must submit the project proposal to the Commissioner of Children, Families and Learning for review and comment by July 1. Capital loans may not be used to pay for swimming pools, ice arenas, athletic facilities, day care centers, bus garages, or heating system improvements.
2. The commissioner must prepare a review and comment of the proposed project and submit the review and comment to the state board. In order to grant a positive review and comment, the commissioner must determine that all of the following conditions have been met:
 - ▶ no adequate facilities currently exist;
 - ▶ the district will serve at least 80 pupils per grade;
 - ▶ no form of cooperation with other districts would provide the needed facilities;
 - ▶ the facilities are comparable to facilities recently constructed in other districts of similar enrollment;
 - ▶ the facilities are comparable to facilities recently constructed in other districts that are financed without a capital loan;
 - ▶ the district's enrollment is expected to grow over the next five years or the district qualifies for sparsity revenue;
 - ▶ the current facility poses a health and safety threat and cannot be brought into compliance with code;
 - ▶ the district has made an effort to adequately maintain the existing facility; and
 - ▶ the district has shared its plans and received comments from neighboring school districts.
3. The school board of a district that wants a capital loan must adopt a resolution that describes the project and submit an application for a capital loan to the commissioner by November 1.
4. The commissioner makes a recommendation for each capital loan to the education committees of the legislature by February 1.
5. Each capital loan must be approved in law.
6. A district must approve the project by referendum before February 1.

If the capital loan is approved, the district must issue bonds up to the amount of: (1) the district's net debt limit, as defined in Minnesota Statutes, section 475.53 or (2) 607 percent of ANTC, whichever is less. The amount of the capital loan the district is eligible for is the difference between the total cost of the project and the amount of the local bond issue.

The district's repayment of the loan is determined by one of several formulas, depending upon when the loan was obtained. For districts obtaining loans approved by the commissioner after January 1, 1990, the formula is as follows:

The district must levy the greater of:

- (1) 40 percent of ANTC; or
- (2) the amount needed to pay principal and interest on the local bond issue.

In any year, if 40 percent of ANTC is the greater amount, the difference between (1) and (2) is applied to repayment of the state loan. If the amount needed for local debt service is the greater amount, no payment is required on the state loan in that year. Maximum effort capital loans are forgiven if they are not paid within 50 years of issue.

Debt Service Loans. Districts in which the levy required to make debt service payments on local bond issues exceeds 40 percent of ANTC by 10 percent or by \$5,000 can obtain a debt service loan from the state. This is a loan to reduce the magnitude of the debt service levy which must be collected. The amount of the loan can be up to the amount of the difference between the required debt service levy and 40 percent of ANTC. However, the debt service loan amount cannot exceed 1 percent of the district's outstanding bonded debt.

Debt service loans are repaid in the same fashion as capital loans. Districts must levy at least 40 percent of ANTC; if this amount exceeds the amount which the district must levy for debt service on its bonds, the difference is used to repay the state loan.

Funding. Capital loans and debt service loans are initially funded by the sale of state bonds. In addition to the bond proceeds, supplemental appropriations by the legislature are necessary to make principal and interest payments because repayments of loans by districts are occurring at a slower rate than that required to meet the state's obligations.

Table 16
Maximum Effort Bond Sales

Year Authorized	Amount of Bonds Authorized
2001	\$19,000,000
2000	44,030,000
1995	23,670,000
1994	2,967,000
1993	5,000,000
1991	45,065,000
1990	23,300,000
1988	22,000,000
1980	20,000,000
1969	20,000,000
1967	2,800,000
1965	10,400,000
1963	16,000,000
1961	2,500,000
1959	2,500,000

Table 17
**Maximum Effort Program
 Appropriations to Pay Debt Service**

Fiscal Year	Appropriations*
2003	N/A
2002	\$ 9,405,000
2001	17,200,000
2000	16,320,000
1999	10,169,000
1998	12,279,000

*These amounts are no longer paid from the K-12 budget, but instead, are paid from the state general fund through the same standing appropriation as most other state bonds.

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Cooperative Secondary Facilities Grant Program

The cooperative secondary facilities grant program provides state grants to groups of local school districts that desire to build a new secondary facility. A district must meet the same criteria as required by the cooperation and combination (C&C) program in order to qualify for a grant; a minimum of two school districts must agree to apply for the grant; the facility must serve at least 66 pupils per grade; and each participating district must have fewer than 1,200 pupils in total. Grant amounts are currently limited to the lesser of 75 percent of the project cost or \$6 million (\$1 million of this amount is available to the applicants only if the applicants demonstrate that new school facility will provide for "collocation" of other governmental services).

A group of districts that desire a cooperative secondary facility grant must enter into a joint powers agreement and apply to the Department of Children, Families and Learning for project approval. If the state makes bond proceeds available, districts must hold a referendum to approve the sale of bonds for the local portion of the project costs within 180 days of receiving a grant from the state. The referendum must be approved by a majority of those voting on the bond issue. In recent years, the legislature has awarded a \$100,000 planning grant to potential grant recipients and has also named specific grantees in law when the bond proceeds are made available.

(Minn. Stat. §§ 123A.44-123A.446)

Table 18
Cooperative Secondary Facilities

High School Name	Member School Districts	State CSF Grant Amount	Year of Grant Approval	School Year Facility Opened
ACGC High School	Atwater; Cosmos; Grove City*	\$6,000,000	1994	1995-96
Grant County High School	Elbow Lake; Barrett; Hoffman; Kensington*	6,000,000	1993	1995-96
Blue Earth High School	Blue Earth-Winnebago; Delavan; Elmore*	5,800,000	1992	1994-95
Minnewaska High School	Glenwood; Starbuck; Villard*	6,000,000	1989	1990-91
Lac Qui Parle Valley High School	Madison-Marietta-Nassau; Appleton; Milan*	8,000,000	1988	1989-90

*Since receiving the CSF grant, all of these groups of districts have consolidated.

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Bonds for Certain Capital Facilities

A district may issue general obligation bonds without voter approval for certain capital projects. The bonds must be repaid within ten years of issuance with the district's annual operating capital revenue.

(Minn. Stat. § 123B.62, subd. 9)

Health and Safety Revenue

A district with a building problem related to health or safety concerns may submit an application to the Commissioner of Children, Families and Learning for authorization to receive health and safety revenue. Health and safety revenue may be used for the following purposes:

- ▶ to remove or encapsulate asbestos;
- ▶ to dispose of polychlorinated biphenyls (PCBs);
- ▶ to remove and dispose of fuel oils;
- ▶ to eliminate a fire hazard; and
- ▶ to remove a life safety hazard.

Capital expenditure health and safety aid, levy, and revenue is computed as follows:

$$\begin{aligned}
 \text{Revenue} &= \text{amount approved by the Department of Children, Families and Learning} \\
 \text{Levy} &= \text{a) the lesser of one; or} \\
 &\quad \text{b) } \frac{\text{ANTC/pupil units}}{\$3,956} \times \text{Health \& Safety Revenue} \\
 \text{Aid} &= \text{Health \& Safety Revenue} - \text{Health \& Safety Levy}
 \end{aligned}$$

(Minn. Stat. § 123B.57)

Table 19
Health and Safety Revenue

Fiscal Year	State Aid	Levy
2003	\$10,800,000	\$124,048,000
2002	13,630,000	76,623,000
2001	14,920,000	75,569,000
2000	14,202,000	67,508,000
1999	14,179,000	62,242,000
1998	14,081,000	51,643,000

House Research Department

Alternative Facilities Bonding and Levy Program

A school district may choose to participate in the alternative facilities bonding program instead of the health and safety revenue program. A district qualifies to participate in the alternative facilities bonding and levy program if the district has:

- (1) more than 66 students per grade;
- (2) has either:
 - (a) over 1,850,000 square feet of space and an average age of building space that is 20 years or older, or
 - (b) has more than 1,500,000 square feet of space and an average building age of 35 years or more;
- (3) insufficient funds from projected health and safety revenue and capital facilities revenue to meet the requirements for deferred maintenance, to make accessibility improvements, or to make fire, safety, or health repairs; and
- (4) a ten-year facility plan approved by the commissioner.

An eligible school district may issue general obligation bonds without voter approval to finance the approved facilities plans. The district may then levy to repay the bonds. This levy qualifies for debt service equalization aid. Alternatively, an eligible district may make an annual levy for the costs incurred under the ten-year facility plan. The 1997 and 1998 Legislatures provided ongoing state aid payments to reduce these levy amounts.

Table 20
Alternative Facilities Revenue

Fiscal Year	State Aid	Pay-as-you-go Alternative Facilities Levy	Alternative Facilities Bonded Debt Levy
2003	\$19,287,000	\$26,270,000	\$44,700,000
2002	19,279,000	24,038,000	35,327,000
2001	16,303,000	21,800,000	16,303,000
2000	19,624,000	21,286,000	19,454,000
1999	17,426,000	16,978,000	17,206,000
1998	—	8,400,000	17,206,000

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(Minn. Stat. § 123B.59)

Disabled Access and Fire Safety Levy

A district that has insufficient money in its capital expenditure fund to either remove architectural barriers from a building, or to make fire safety modifications required by the fire inspector, may submit an application to the commissioner for approval of levy authority of up to \$300,000 spread over an eight-year period.

For disabled access projects, the commissioner shall develop criteria to determine the cost effectiveness of removing barriers in consultation with the council on disabilities. The commissioner shall approve or disapprove an application within 60 days of receiving it. The state has also provided state bond proceeds to help small school districts remove barriers: \$1 million was approved in 1993, \$4 million was approved in 1994, \$2 million was approved in 1996, and \$1 million was approved in 1998.

(Minn. Stat. § 123B.58)

Leased Facilities Levy

The leased facilities levy authority allows districts to levy to pay rent on leased facilities. The levy authority has been modified several times in the last few years. The allowable purposes of the levy were narrowed and then expanded. Currently, upon the commissioner's approval, districts may levy for leased facilities when the leased facility would be economically advantageous. The lease levy must not exceed \$100 per pupil unit except that a school district that is a member of an intermediate school district may

levy an additional \$25 per pupil unit for space in intermediate facilities. The facilities must be used for instructional purposes. The leased levy may not be used for a lease purchase agreement unless the agreement was approved by the Commissioner of Children, Families and Learning prior to July 1, 1990, or the district levied for the payments in 1989.

(Minn. Stat. § 126C.40, subds. 1, 2, and 6)

Table 21
Building Lease Levy Amounts

Fiscal Year	Total Levy
2003	\$40,006,000
2002	33,569,000
2001	31,707,000
2000	27,015,000
1999	22,101,000
1998	19,513,000
1997	16,724,000
1996	12,111,000

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Table 22
Leased Facilities Levy

School Year	Payable Year	Permitted Uses/Limitations
2002-03	Pay 02 and later	Sets the maximum per pupil levy for a school district that is a member of an intermediate school district at \$125 per pupil unit.
1999-2000 to 2001-02	Pay 99 and later	Excludes expenditures for sports stadiums from the definition of "instructional space."
1998-99 and later	Pay 98 and later	For agreements finalized after July 1, 1997, no district may have a lease levy in excess of \$100 per pupil unit and no district may use the lease levy for a "newly constructed building for regular kindergarten, elementary, or secondary space."
1992-93 and later	Pay 92 and later	Upon approval of commissioner when economically advantageous for instructional purposes. Broadens scope to land as well as facilities.
1991-92	Pay 91	Upon approval of commissioner when economically advantageous for instructional purposes. Future lease purchase agreements are no longer eligible.
1990-91	Pay 90	Upon approval of commissioner when economically advantageous for instructional purposes.
1989-90	Pay 89	Upon approval of commissioner when economically advantageous for secondary vocational programs only.
1988-89	Pay 88	The leased facilities levy was repealed. However, a special levy allowed a district to levy the amount that would have been authorized in 1987 if the levy had not been repealed.
1987-88	Pay 87	Upon approval of commissioner when economically advantageous for instructional purposes.

Special Education Funding

Special Education Mandate

Local school districts are required by state law to provide appropriate and necessary special education to children with disabilities from birth to 21 years of age. Children with disabilities are defined in statute to include children who have a hearing impairment, visual disability, speech or language impairment, physical handicap, other health impairment, mental handicap, emotional/behavioral disorder, specific learning disability, or deaf/blind disability. The definition of a child with a disability also includes every child under age five who needs special instruction and services, as determined by the standards of the state board, because the child has a substantial delay or an identifiable and known physical or mental condition. The mandate for service does not include pupils with short-term or temporary physical or emotional disabilities.

Special instruction and services for children with disabilities must be based on the assessment and individual education plan (IEP). The statutes and state board rules specify school district responsibilities for program decisions for children with disabilities and for the education of children who are placed outside the district where their parents reside. Districts are required to provide special education on a shared time basis to pupils enrolled in nonpublic schools.

Approximately 113,000 students, or roughly 11 percent, of the K-12 pupils in the state receive some special education services.³

(Minn. Stat. §§ 125A.01-125A.03; 125A.08)

Table 23
**Special Education Unduplicated Child Count
 by Disability Category, December 1, 2000**

Category	Count
Speech Language Impaired	20,924
Mild/Moderate Handicapped	7,535
Severe/Profound Mentally Handicapped	2,703
Physically Disabled	1,572
Hearing Impaired	2,152
Visually Disabled	429
Specific Learning Disabilities	38,903
Emotional Behavior Disorder	17,682
Deaf/Blind	51
Other Health Impaired	7,840
Autistic	2,814
Brain Injured	363
Early Childhood Disabled	9,948
TOTAL	112,916

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³ This percentage is based on the December 2000 unduplicated child count conducted by the Department of Children, Families and Learning and compares total children served to all public and nonpublic K-12 pupils.

Special Education Funding Formula

School districts receive state aid and some federal aid to pay for special education services. If these funds are insufficient to pay for the costs of the programs, districts must use other general fund revenue.

(Minn. Stat. §§ 125A.75-125A.79)

Special Education Revenue

A school district's special education base revenue is determined by a reimbursement formula. Special education costs are calculated for a base year, two fiscal years prior to the year of the aid payment. A district's revenue is the amount obtained by summing the special education reimbursements. Since the 1999-2000 school year, special education revenue has been provided entirely in state aid.

The base revenue is equal to the sum of the following expenditures for regular special education and summer special education programs:

- ▶ 68 percent of the salaries paid to essential personnel in the district's program for children with a disability (essential personnel are defined as teachers, related services, and support services staff providing direct services to students); plus
- ▶ 68 percent of the salary of instructional aides at the Minnesota academies, who are assigned to students by their individual education plan; plus
- ▶ 52 percent of the difference between the contract amount for special instruction and services and the general education revenue allowance for pupils who receive special education through a contract with an agency other than a school district; plus
- ▶ 52 percent of the contract amount for supplementary special education provided through a contract with an agency other than a school district; plus
- ▶ 47 percent of expenditures for special supplies and equipment for educating children with disabilities up to a maximum of \$47 per child receiving instruction.

The base special education revenue is adjusted for enrollment growth over the base year plus 50 percent of the differences between base year and current year expenditures for:

- ▶ tuition for student's with an IEP that requires placement out of the district; and
- ▶ services provided to students with disabilities who receive these services under a court order.

Excess Cost Aid. A school district's excess cost aid is capped in much the same manner as the regular special education aid. Total state excess cost aid is set at a fixed dollar amount. This amount is increased by a statutory program growth factor (1.044 for fiscal year 2002 and 1.02 for fiscal year 2003) and the change in pupil counts for each year. Each district's initial excess cost aid is based on the difference between unreimbursed special education costs and other general education revenue. Excess cost aid is designed to provide additional special education funding for districts that have extremely high

levels of unreimbursed special education expenses. Initial excess cost aid equals the greater of:

- (a) 75 percent of the difference between the district's unreimbursed special education cost and 4.36 percent of the district's general education revenue; or
- (b) 70 percent of the difference between:
 - (1) the increase in the unreimbursed costs between the base year and the current year; and
 - (2) 1.6 percent of the district's general education revenue.

A district's excess cost aid is its initial excess cost aid prorated to the state total excess cost aid by multiplying the district's initial excess cost aid by the ratio of the state total excess cost aid to initial (uncapped) state total excess cost aid.

Home-Based Travel Aid. The state pays 50 percent of the expenditures on necessary travel of essential personnel to provide home-based services to children with a disability who are under five years old.

Special Pupil Aid. The state pays 100 percent of the costs of instruction and services for disabled children who don't have a resident district because their parents' rights have been terminated, or their custodial parent or guardian lives outside Minnesota or is an inmate or resident of a state correctional facility, less the general education basic revenue allowance and any other aid earned on their behalf.

Table 24
Special Education Funding

Fiscal Year	Regular Special Education Aid	Special Education Levy	Special Education Excess Cost	Home-based Services Travel Aid	Special Pupil Aid
2003	\$531,481,000	\$0	\$104,773,000	\$138,000	\$2,033,000
2002	507,488,000	0	102,665,000	135,000	1,877,000
2001	472,900,000	0	89,072,000	130,000	4,263,000
2000	456,015,000	0	66,032,000	125,000	433,000
1999	382,519,000	50,715,000	44,984,000	111,000	644,000
1998	282,505,000	75,910,000	25,974,000	107,000	586,000

House Research Department

Alternative Delivery of Specialized Instructional Services. The alternative special education program is designed to offer districts a more efficient and flexible delivery mechanism for specialized instructional services. Under the basic special education funding mechanism, a district receives aid for children who have entered the special education system. In some cases, it is argued, special education services could be avoided if the district could provide services earlier to low-performing students who have not, as yet, been classified as requiring special education. The district could more efficiently educate a student by spending funds prior to the classification rather than waiting until a determination has been made.

To qualify for the alternative funding, a district must apply to the Commissioner of Children, Families and Learning for approval of an alternative delivery system. The application must describe the services that will be offered to students with disabilities and low-performing students who would eventually become special education students. Under an approved program, a district may provide instruction and services in a regular classroom to low-performing students. The district is eligible for an alternative form of special education revenue.

(Minn. Stat. §§ 125A.50; 125A.78)

American Indian Programs

Minnesota has a variety of programs in place to provide funds for American Indian education programs.

American Indian Scholarships

The American Indian scholarship program provides need-based scholarships to Minnesota residents who are at least one-fourth or more Indian ancestry. The Commissioner of Children, Families and Learning awards the scholarships upon recommendation of the Indian scholarship committee. The scholarships may be used at accredited Minnesota post-secondary (public and private) institutions.

(Minn. Stat. § 124D.84)

Success for the Future

The "Success for the Future" program, provides funding beginning in fiscal year 2002 in place of three other programs (Post-secondary preparation grants, American Indian language and culture grants, and Johnson O'Malley replacement aid grants) designed to assist American Indian students. The Success for the Future program funds collaborative programs that are intended to increase student achievement and lower the dropout rate through targeted retention programs, counseling and advocacy services, innovative technology-based curriculum, and best practices activities. Success for the Future makes grants to districts for programs.

(Minn. Stat. § 124D.81)

American Indian Post-Secondary Preparation Grants

For fiscal year 2002 and later, the American Indian post-secondary preparation grants were replaced by the Success for the Future program. Prior to this, the Commissioner of Children, Families and Learning, upon recommendation of the Indian scholarship committee, made grants to school districts to help prepare Indian secondary students for enrollment and success in college.

(Minn. Stat. § 124D.85)

American Indian Language and Culture Programs

For fiscal year 2002 and later, the American Indian language and culture program grants were replaced by the Success for the Future program. The American Indian language and culture program was designed to make the school curriculum more relevant to the needs and heritage of Indian pupils, provide positive reinforcement of the self-image of Indian pupils, and develop intercultural awareness among pupils, parents, and staff. Grants were awarded by the Commissioner of Children, Families and Learning upon the recommendation of the American Indian education committee to public schools, nonsectarian, nonpublic, community, tribal, or alternative schools that enroll Indian students.

(Minn. Stat. §§ 124D.71-124D.82)

Johnson O'Malley Replacement Funds

For fiscal year 2002 and later, the Johnson O'Malley replacement funds were replaced by the success for the future program. The Johnson O'Malley replacement funds were for grants for general educational purposes are made by the legislature to the six school districts that operate Indian village elementary schools. The grant money is in lieu of funds which are not available from the federal government according to the Johnson-O'Malley Act (Pub. L. No. 73-167).

Indian Teacher Preparation Grants

The Commissioner of Children, Families and Learning makes joint grants to pairs of school districts and post-secondary institutions to assist Indian people in becoming teachers. For the 2002-03 biennium, grants may be made to University of Minnesota at Duluth and the Duluth school district; Bemidji State University and the Red Lake school district; Moorhead State University and a school district within the White Earth Reservation; and Augsburg College and the Minneapolis and St. Paul school districts. The amount of each grant is established in an appropriations rider. Grant money may be used for programs, student scholarships, and student loans.

(Minn. Stat. § 122A.63)

Tribal Contract School Aid

State aid is paid to four tribal contract schools in Minnesota. The tribal contract schools must comply with Minnesota's education statutes, and state aid must supplement, not replace, funds provided by the federal government.

State aid for tribal contract schools is calculated as follows:

- (1) Multiply the formula allowance times the difference of the school's WADM and the number of pupils receiving nonpublic benefits or enrolled in alternative programs;
- (2) Subtract from (1) the amount of federal money allocated through the Indian School Equalization Program;
- (3) Divide the result in (2) by the school's WADM; and
- (4) Multiply the school's WADM by the lesser of (3) or \$1,500.

Tribal contract schools that receive state aid are also eligible for early childhood family education revenue. The revenue equals 1.5 times the statewide average expenditure per ECFE participant times the number of tribal contract school participants (children and adults).

(Minn. Stat. § 124D.83)

Table 25
Appropriations for American Indian Programs

Fiscal Year	American Indian Scholarships	Success for the Future	American Indian Post-Secondary Preparation Grants	Language and Culture Programs	Johnson O'Malley Replacement Funds	Indian Teacher Preparation Grants	Tribal Contract School Aid	Early Childhood at Tribal Contract Schools
2003	\$1,875,000	\$2,137,000	\$0	\$0	\$0	\$190,000	\$2,767,000	\$68,000
2002	1,875,000	2,047,000	0	73,000	17,000	190,000	2,520,000	68,000
2001	1,875,000		982,000	730,000	175,000	190,000	2,790,000	68,000
2000	1,875,000		982,000	730,000	175,000	190,000	2,706,000	68,000
1999	1,875,000		982,000	716,000	175,000	190,000	2,287,000	68,000
1998	1,600,000		857,000	591,000	175,000	190,000	2,797,000	68,000

House Research Department

Community, Early Childhood, and Adult Education Funding

Community Education Programs

Community education programs are intended to maximize the community's use of public schools and to expand the involvement of community members who have skills and knowledge to share with the community. Districts establishing a community education program must provide for a citizens' advisory council to advise the school administration on how best to use school facilities and community resources. Fees may be charged for community education programs.

Districts with a community education program may also prepare a youth development plan to improve coordination of agencies that address the needs and develop the resources of youth in the community. A participating district may also offer a youth service program to provide meaningful opportunities for community involvement and citizenship.

(Minn. Stat. §§ 124D.18-124D.21)

Community Education Revenue. Community education programs are funded through aid and levy. Districts that prepare a youth service program and a youth development plan are eligible for additional revenue. Beginning in fiscal year 2003, districts that establish youth after-school enrichment programs are authorized to levy an additional amount.

In fiscal year 2002, community education aid and levy are computed as follows:

Total Community Education Revenue	=	General Community Education Revenue	+	Youth Service Program Revenue
General Community Education Revenue	=	\$5.95, times the greater of (a) 1,335; or (b) population of the district		
Youth Service Revenue	=	\$1.00, times the greater of (a) 1,335; or (b) population of the district		
Community Education Levy	=	.4795% times ANTC		
Community Education Aid	=	Community Education Revenue	-	Community Education Levy

Beginning in fiscal year 2003, community education aid and levy are computed as follows:

Total Community Education Revenue	=	General Community Education Revenue	+	Youth Service Program Revenue	+	Youth After-School Enrichment Revenue
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General Community Education Revenue	= \$5.95, times the greater of: (a) 1,335; or (b) population of the district
Youth Service Revenue	= \$1.00, times the greater of (a) 1,335; or (b) population of the district
Youth After-School Enrichment Revenue	= (1) \$1.85, times the greater of (a) 1,335; or (b) population of the district not to exceed 10,000; plus (2) \$0.43, times the population of the district in excess of 10,000
Total Community Education Levy	= .7431 times ANTC
Community Education Aid	= Community Education Revenue - Community Education Levy

In addition, districts that received more community education revenue in fiscal year 1983 than they would receive under the current levy and aid formulas are authorized to levy an additional amount. The amount is equal to the difference in revenue between the two years, excluding any revenue reductions due to budget cuts for fiscal year 1983.

The amount of community education aid a district receives is reduced for any district which levies less than the maximum for community education, in proportion to the amount of the underlevy.

Table 26
Community Education Revenue

School Year	Tax Rate	Community Education Revenue per Capita	Minimum Revenue per District	Appropriations	Levy	Number of Participating Districts
2002-03	.7431%	6.95	11,748	\$13,111,000	\$31,631,000	N/A
2001-02	.4795	6.95	9,278	14,209,000	19,218,213	342/343
2000-01	.4795	6.95	9,278	15,274,000	17,981,800	344/345
1999-2000	.49	6.95	9,278	14,136,000	16,700,027	348/350
1998-99	1.1	6.95	9,278	1,619,000	30,309,000	N/A
1997-98	1.1	6.95	9,278	1,828,000	29,536,000	351/353

Programs for Adults with Disabilities. Districts may offer programs for adults with disabilities as part of their community education programs. These programs may include outreach activities to identify adults needing service, classes specifically for adults with disabilities, services enabling the adults to participate in community education, and activities to increase public awareness and enhance the role of people with disabilities in the community. To be eligible for adults with disabilities program revenue, the program description and budget must be approved by the Department of Children, Families and Learning.

State aid is provided to districts with approval for educational programs for adults with disabilities. State aid is equal to the lesser of \$30,000 or one-half of the actual program expenditures. The remainder of a district's program revenue is composed of funds from other public or private sources, or an optional levy not to exceed \$30,000 or one-half of the approved program budget.

The aid appropriations for fiscal years 1998 to 2003 included funding for new adults with disabilities pilot projects to be located in areas of Minnesota without a program. The pilot sites were given no levy authority to levy for the program.

(Minn. Stat. §§ 124D.19, subs. 7 and 8; 124D.56)

Table 27
Programs for Adults With Disabilities

Fiscal Year	Appropriations	Levy	Number of Programs
2003	\$710,000	\$670,000	N/A
2002	639,000	670,000	37
2001	710,000	670,000	37
2000	670,000	670,000	33
1999	710,000	662,000	37
1998	710,000	666,000	37

House Research Department

Early Childhood Family Education Programs

Districts that provide community education programs may also establish early childhood family education programs (ECFE) for children from birth to kindergarten, for their parents, and for expectant parents. These programs include parent education to promote children's learning and development. All ECFE programming must require substantial parental involvement.

Districts must appoint an advisory council to assist in planning and implementing ECFE programs. Districts are encouraged to coordinate ECFE programs with their special education and vocational education programs, as well as with other public or nonprofit agencies providing similar services.

(Minn. Stat. §§ 124D.13; 124D.135)

Early Childhood Family Education Revenue. ECFE programs are funded through state aid, local levy, and participant fees. The formula for calculating ECFE revenue is based on the district's population of young children. ECFE funding has changed over the last several fiscal years. The revenue has increased and districts were given additional aid for fiscal year 1998 and additional levy authority for fiscal year 1999. The 1998 Legislature reduced ECFE levies for fiscal year 2000 and later.

Beginning with fiscal year 2002, the calculations for ECFE aid, levy, and revenue are computed as follows:

- ECFE Revenue = \$120, times the greater of
 (a) 150; or
 (b) number of district residents under 5 years of age
- ECFE Levy = the commissioner must establish a tax rate for ECFE revenue that raises \$21,027,000 in fiscal year 2002 and \$22,135,000 in fiscal year 2003
- ECFE Aid = ECFE Revenue - ECFE Levy
- Home Visiting Levy = \$1.60 times the number of district residents under 5 years of age

The amount of ECFE aid is reduced for any district that levies less than the maximum early childhood levy allowed to the district, in proportion to the amount of the underlevy.

Beginning in fiscal year 2000, districts were required to charge fees for ECFE programs, but may waive fees for participants who are unable to pay. Districts may also obtain funds from other sources to support early childhood programs. Districts must maintain ECFE funds in a separate account.

The 2001 Legislature placed a limit on the amount of ECFE reserves. Beginning in 2003, the average revenue in a district's ECFE reserve account over the prior three years is limited to 25 percent of the district's ECFE revenue for the prior year. A district's ECFE revenue will be reduced by any amount in excess of an average of 25 percent of the district's ECFE revenue for the prior three years. Districts anticipating a reserve account in excess of this limit due to extenuating circumstances may obtain prior written approval from CFL to exceed the limit.

Table 28
Early Childhood Family Education Revenue

School Year	ECFE Tax Rate	ECFE Formula Allowance	Appropriations	Levy	Number of Participating Districts
2002-03	.6578	\$120.00	\$20,663,000	\$22,135,000	N/A
2001-02	.5257	120.00	20,758,000	21,027,000	338/343
2000-01	.5282	115.96	21,107,000	19,937,000	341/345
1999-2000	.45	115.96	20,109,000	18,346,349	344/347
1998-99	.653	113.50	14,104,000	23,778,000	345/350
1997-98	.653	101.25	15,618,000	20,316,000	346/353

Early Childhood Home Visiting Program. A school district participating in a collaborative agreement to provide education services and social services through home visiting programs may levy up to \$1.60 times the number of people under the age of five residing in the district.

(Minn. Stat. §§ 124D.13; 124D.14)

School-Age Care Program

A school district may offer a school-age care program for children in kindergarten through grade six. The program must provide supervised activities during nonschool hours. Programs are primarily funded through participant fees on a sliding fee scale based on family income. This program was formerly called the extended day program.

Districts with school-age care programs receive school-age care revenue for the additional costs of providing services to children with disabilities or children experiencing family or related problems of a temporary nature. For fiscal year 1998 and later, school-age care aid and levy are calculated as follows:

$$\begin{aligned} \text{School-Age Care Revenue} &= \text{Approved costs} \\ \text{School-Age Care Levy} &= \text{School-Age Care Revenue} \times \text{the lesser of:} \\ &\quad \text{(a) one; or} \\ &\quad \text{(b) the ratio of the district's ANTC to \$3,280} \\ \text{School-Age Care Aid} &= \text{School-Age Care Revenue} - \text{School-Age Care Levy} \end{aligned}$$

(Minn. Stat. §§ 124D.13; 124D.22)

Adult Basic Education

Adult basic education (ABE) programs provide academic instruction for persons over age 16 who do not attend school. The purposes of the instruction are to enable students to obtain high school diplomas or equivalency certificates.

The Commissioner of Children, Families and Learning must approve a district's adult basic education program. The commissioner may also contract with private nonprofit organizations to provide these programs.

A district or an organization may not charge tuition or fees for adult basic and continuing education programs.

School districts may use funds from the community education levy and state community education aid for adult basic education programs. In addition, adult basic education programs are funded with state aid and federal funds. The total amount from all sources cannot exceed the actual cost of providing adult education programs.

The state also reimburses testing centers for 60 percent of the cost of administering general education development (GED) tests, up to a maximum of \$20 per individual. GED tests, which qualify students for a high school equivalency certificate, are available to Minnesota residents over age 19 whether or not they have taken a refresher course.

(Minn. Stat. §§ 124D.52; 124D.53; 124D.531; 124D.55)

Adult Basic Education Revenue. The 2000 Legislature established a new ABE funding formula beginning with revenue for fiscal year 2001. The new formula is based on contact hours, the enrollment of students with limited English proficiency, and the number of adults age 20 or older with no diploma residing in a district. The new formula includes a cap of 8 percent on the growth of state total ABE aid from year to year and a cap of 17 percent on the growth of aid to individual programs each year. All programs received a one year aid guarantee in which aid in fiscal year 2001 was required to be at least equal to aid in fiscal year 2000.

Prior to the change, ABE funding was based on full-time equivalent students (FTE). An FTE was equal to 408 contact hours for a student at the adult secondary instructional level and 240 contact hours for either a student at a lower instructional level or an English as a second language student. Until fiscal year 2000, local levies had been an additional method to provide funding for ABE programs. In addition, ABE programs were eligible for additional aid if their aid amount was less than in 1992. In fiscal year 2000, the additional amount was equal to 60 percent of the difference between the formula aid in fiscal year 1997 and fiscal year 2000. However, the FTE formula, basic population aid, and aid guarantee were all replaced by the 2000 Legislature with the new ABE formula.

Beginning in 2002, state aid to ABE programs is equal to:

- Adult Basic Education Aid = the state total adult basic education aid for the preceding fiscal year x the lesser of:
(a) 1.08; or
(b) the greater of 1.00 or the ratio of state total contact hours in the first prior program year to the state total contact hours in the second prior program year
- ABE Basic Population Aid = the greater of:
(a) \$4,000; or
(b) \$1.80 times the population of the district
- ABE Program Revenue = the sum of:
(a) 84% times total state ABE aid, times the ratio of contact hours for students participating in the program during the first prior program year to the state total contact hours during the first prior program year; plus
(b) 8% times total state ABE aid, times the ratio of the enrollment of students with limited English proficiency during the second prior program year to the state total enrollment of students with limited English proficiency during the second prior program year; plus

(c) 8% times total state ABE aid, times the ratio of the latest federal census count of the number of adults age 20 or older with no diploma residing in the district during the current program year to the state total number of adults age 20 or older with no diploma residing in all participating districts.

Beginning in fiscal year 2002, 2 percent of state total ABE aid must be set-aside for ABE supplemental service grants.

Each district's ABE aid must be proportionately reduced if the appropriation is insufficient to meet the formula amounts.

Table 29
Adult Basic Education Programs

Fiscal Year	Appropriations	Levy
2003	\$34,731,000	\$0
2002	32,150,000	0
2001	29,168,000	0
2000	22,106,000	0
1999	12,473,000	4,404,000
1998	12,474,000	4,240,000

House Research Department

Adult High School Graduation Aid

A school district is eligible for adult high school graduation aid for pupils who are age 21 or over. The aid must follow the student to programs that provide educational services for adult diploma students, including area learning centers, public schools, private nonsectarian schools under contract to a school district, and ABE programs.

For fiscal year 2002 and later, adult high school graduation aid is computed as follows:

$$\text{Adult Graduation Aid} = \$2,388 \times 1.3 \times \text{average daily membership}$$

Average daily membership is equal to the district's ratio of adult students' membership hours in a year to the number of instructional hours in the regular school year.

(Minn. Stat. § 124D.54)

Table 30
Adult High School Graduation Aid

Fiscal Year	Appropriations
2003	\$3,356,000
2002	3,195,000
2001	3,031,000
2000	2,760,000
1999	2,550,000
1998	2,550,000

House Research Department

Health and Developmental Screening

School districts are required to provide developmental screening for children before they start school, targeting children who are between three-and-one-half and four years old. A screening program must include:

- ▶ a developmental assessment;
- ▶ a hearing and vision screening or referral;
- ▶ an immunization review and referral;
- ▶ child's height and weight; and
- ▶ an identification of risk factors that may influence learning and referral.

Optional screening components include:

- ▶ nutritional, physical, and dental assessments;
- ▶ review of family circumstances that affect development; and
- ▶ laboratory tests, blood tests, and health history.

School districts are required to offer developmental screening for children prior to entering school and all students must be screened prior to enrollment in a public school. A school may enroll a student without screening if the child's parent provides a signed statement of conscientiously held beliefs against screening. Developmental screening must be conducted by trained or licensed personnel.

Districts receive \$40 in state aid for each child screened. The district may transfer money from the general fund to make up the difference between state aid and the cost of the program.

(Minn. Stat. §§ 121A.16-121A.19)

Table 31
Developmental Screening Aid

Fiscal Year	Appropriations
2003	\$2,661,000
2002	2,661,000
2001	2,650,000
2000	2,450,000
1999	1,550,000
1998	1,550,000

House Research Department

School Readiness

A school district or group of school districts may establish a school readiness program to enable children to enter school with the necessary skills and behavior to succeed. A child may participate in a school readiness program if the child is at least three-and-one-half years old and has had a developmental screening. Children under the age of three-and-one-half can be enrolled if the district determines that serving young children makes the program more effective.

Districts may establish a sliding fee for school readiness programs. Fees must be waived for participants who are unable to pay. The state also provides state school readiness aid. Beginning with fiscal year 1998 school readiness aid is calculated as follows:

- (1) the number of eligible 4-year-olds in the district on October 1 of the previous school year x the ratio of 50% of the total aid to the total number of eligible 4-year-olds in the state on October 1 of the previous school year; plus
- (2) the number of students enrolled in the district from families eligible for free and reduced lunch for the second previous school year x the ratio of 50% of the total aid to the total number of students in the state eligible for free and reduced lunch for the second previous school year

Districts must keep school readiness aid in a reserve account within the community service fund.

The 2001 Legislature placed a limit on the amount of school readiness reserves. Beginning in 2003, the average revenue in a district's school readiness reserve account over the prior three years is limited to 25 percent of the district's school readiness revenue for the prior year. A district's school readiness revenue will be reduced by any amount in excess of an average of 25 percent of the district's school readiness revenue for the prior three years. Districts anticipating a reserve account in excess of this limit due to extenuating circumstances may obtain prior written approval from CFL to exceed the limit.

(Minn. Stat. §§ 124D.15; 124D.16)

Table 32
School Readiness Aid

Fiscal Year	Appropriations
2003	\$10,395,000
2002	10,395,000
2001	10,395,000
2000	10,395,000
1999	10,405,000
1998	10,316,000

House Research Department

Way to Grow/School Readiness Program

The Way to Grow/school readiness program is a collaborative grant program designed to assist parents in meeting the health and developmental needs of their children at the earliest possible age.

Grants are awarded to applicants based on five-year plans. Priority is given to established programs. Each dollar of a state grant must be matched with 50 cents from nonstate sources.

Since fiscal year 1994, the legislature has appropriated \$475,000 per year to fund Way to Grow programs in Minneapolis, St. Paul, Winona, St. Cloud, and Columbia Heights.

(Minn. Stat. § 124D.17)

Cooperative Programs

Minnesota's school districts and students participate in a variety of programs that are cooperative in nature. The programs are of two general types: programs that allow student movement and programs that are provided by groups of school districts.

School District Cooperative Programs

School districts belong to a variety of group organizations in order to both provide expanded educational opportunities for students and to provide support of administrative functions. Membership in most group structures is voluntary. From fiscal year 1995 to fiscal year 2000, nearly all of these cooperative activities were funded through district cooperation revenue and membership dues paid by the member districts to the cooperative organizations. Prior to fiscal year 1995, most of these organizations were funded directly for special education and vocational education programs.

School District Cooperation Revenue. Up until fiscal year 2001, school districts were eligible for district cooperation revenue in the amount of \$67 per pupil unit or \$25,000, whichever is greater. For fiscal year 2001 and later, there is no separate appropriation for cooperation revenue. Instead \$67 per pupil unit was added to the general education formula allowance.

Cooperation revenue was required to be reserved for purchases from cooperative entities or to provide educational services in a cooperative manner. Other restrictions apply to the expenditure of the reserved revenue. A district that belonged to an intermediate district on July 1, 1994, must allocate a 5/11th share of its prorated 1994-95 intermediate district revenue and must spend a minimum of \$9 per pupil unit of its district cooperation revenue on secondary vocational programs. Districts that were intermediate district members on that date must allocate 5/11th of their prorated intermediate district revenue to special education and 6/11th to secondary vocational programs.

(Minn. Stat. § 126C.22)

Table 33
School District Cooperation Revenue

Fiscal Year	Appropriation	Levy
2001	\$563,000*	\$0
2000	5,940,000	58,640,000
1999	8,780,000	57,228,000
1998	9,766,000	53,856,000
1997	12,143,000	51,061,000
1996	13,485,000	48,655,000
1995	14,102,000	23,883,000

*10% cleanup payment for FY 00 aid entitlement

Consolidation Transition Revenue. School districts that have reorganized after June 30, 1994, are eligible for consolidation transition revenue. Consolidation transition revenue has replaced cooperating and combination revenue. Consolidation transition aid is equal to \$200 per pupil in the first year of consolidation and \$100 per pupil in the year after consolidation. Aid is based on a maximum of 1,500 pupils. The revenue must be used to offer early retirement incentives; reduce operating debt; enhance learning opportunities; and for other costs of reorganization. If the aid is insufficient to cover early retirement costs, the district may levy, over a three-year period, for the additional amount. For consolidations that include one or more districts that have received consolidation transition revenue or cooperation and combination revenue within the previous six years, the basis for calculating aid is the number of pupils in the district that has not previously reorganized. If all of the reorganizing districts have received aid within six years, consolidation transition revenue is based on one-fourth of the pupils in the newly created district.

(Minn. Stat. § 123A.485)

Cooperation and Combination Revenue. Districts with a plan for cooperative education leading to consolidation are eligible for cooperation and combination revenue if they levied for the program for taxes payable in 1995. Districts that combine and consolidate must have an agreement; must be members of cooperative organizations; must be contiguous and meet certain size and isolation requirements. They must adopt a plan that addresses employees, debt, curriculum, the proposed handling of other relevant factors, and it must establish procedures for a referendum and the basis for calculating a majority. The referendum must be held prior to the proposed consolidation.

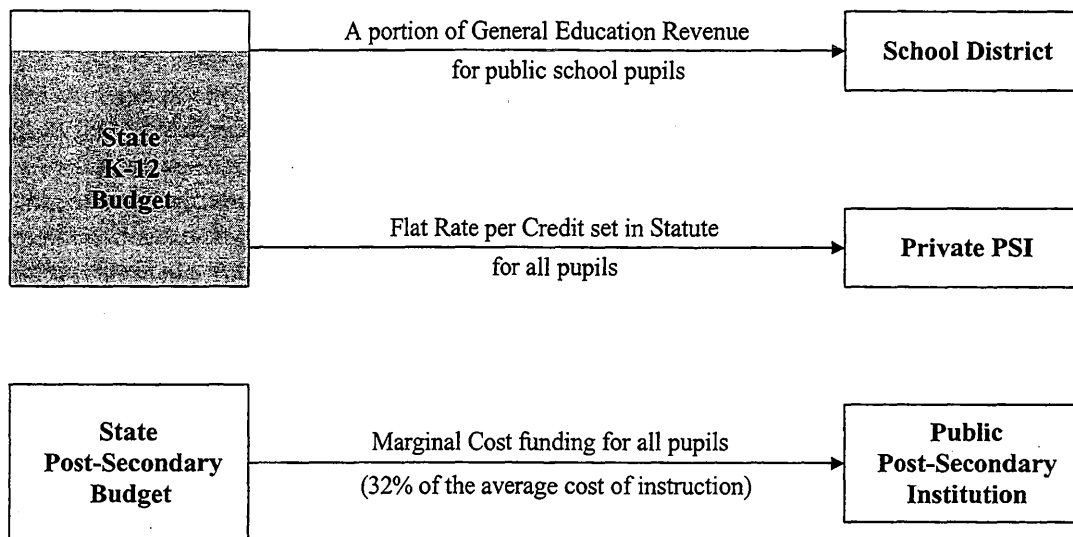
For up to four years, a district with an approved plan is eligible for \$100 per pupil in cooperation and combination aid and levy. The aid portion declines over the four years. Eligible districts also receive an additional \$100 per pupil in aid in the first year of cooperation and \$100 per pupil in the first year of combination.

(Minn. Stat. § 123A.35 to 123A.43)

Student Movement Programs

Students in Minnesota schools can choose from a variety of programs that offer alternative or expanded educational opportunities. Often these programs are referred to as "choice" programs. These programs include Open Enrollment, the Post-Secondary Enrollment Options Program, Area Learning Center Programs, and the Enrollment Options Program. Funding for these programs is as follows.

Open Enrollment Funding. Minnesota's Open Enrollment program allows students to attend school in districts other than the student's resident district. Revenue transfers to match student movement are made through the uniform transfer of payments provisions. Under the uniform transfer of payments, the Department of Children, Families and Learning reduces the resident district's state aid by the amount of general education revenue less any compensatory revenue generated by each pupil who attends a different district. The department increases each nonresident (serving) district's state aid by the same amount. Essentially, general education revenue follows the pupil from the resident district to the district providing instruction.



Transportation of an open enrollment pupil is the responsibility of the nonresident district from the nonresident district's border to the school attended (the resident district has no transportation responsibilities for an open enrollment pupil).

(Minn. Stat. § 127A.47, subd. 7)

PSEO Funding. The Post-Secondary Enrollment Options (PSEO) Program allows pupils in grades 11 and 12 to enroll in college courses offered by an eligible post-secondary institution (PSI) at state expense. For fiscal year 2001, approximately 7,130 public school pupils, 370 traditional nonpublic pupils, and 512 homeschool pupils attended classes at a PSI and the state aid payment to the PSIs through the PSEO funding formula amounted to roughly \$15 million. State funding is provided at two levels: funds are transferred from school districts' general education aid to the PSIs; and PSEO pupils generate funding for public PSIs through state higher education funding formulas.

For public school pupils who participate in the PSEO program, school districts receive 12 percent of the weighted formula allowance. For each full-time PSEO pupil attending a PSI, the district will receive about \$718 ($\$4,601 \times 1.3 \times 12\%$). For nonpublic pupils there is no payment to the school district of residence. For each part-time PSEO pupil, the district will receive a portion of the weighted formula allowance, based on the amount of time that the PSEO pupil attends the high school. A standard rate per credit hour is paid directly to the PSI by the Department of Children, Families and Learning. The rate is set at \$117 for each quarter credit hour ($[\$88\% \times \$4,601 \times 1.3]/45$) and \$175 for each semester hour ($[\$88\% \times \$4,601 \times 1.3]/30$). Public PSIs will continue to receive marginal cost funding for PSEO pupils. The flow chart below shows how PSEO pupils are funded.

In 1992, the legislature specifically authorized school districts and PSIs to provide PSEO courses taught in the high school by high school teachers. There is a different funding process for students taking these courses. The school district receives full funding for the PSEO. The district contracts with a PSI to provide PSEO courses, and pays the PSI directly. For fiscal year 2001, approximately 9,800 pupils participated in the PSEO programs offered at the high schools. Public PSIs still receive marginal cost funding for these PSEO pupils.

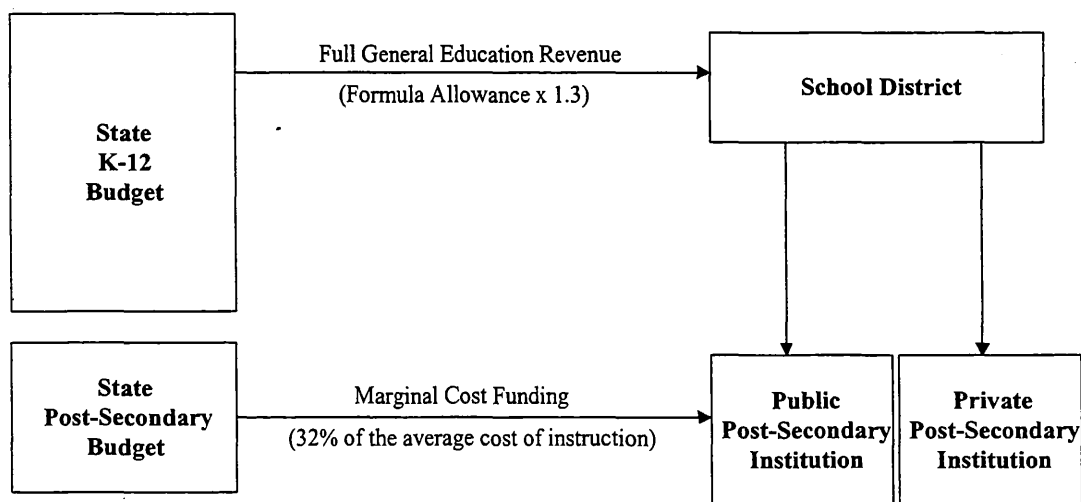
Graduation Incentives Program Funding. The Graduation Incentives Program (previously the High School Graduation Incentives Program and renamed The Education Options Program for one year only) allows certain eligible pupils to receive instruction in a variety of alternative settings. A pupil may attend

- ▶ a program approved by the Commissioner of Children, Families and Learning or an area learning center;
- ▶ a post-secondary institution under the PSEO program;
- ▶ any public elementary or secondary education program;
- ▶ a nonprofit, nonpublic, nonsectarian school that has contracted with the district of residence to provide educational services; or
- ▶ an adult basic education program operated under the community education program (for pupils ages 16 to 21).

A district may contract with any nonprofit, nonpublic school to provide nonsectarian educational services for certain students who are eligible for the Graduation Incentives Program.

(Minn. Stat. § 124D.68, subd. 4)

The method of funding education options students depends on the type of program providing educational services. Revenue distribution for students in an area learning center, a public school, an adult basic education course, or in a board-approved program is the same as the funding for open enrollment students. Funding for education option students in PSEO is the same as for other PSEO students. For education options students who receive educational services from a private organization under a contract with a school district, the basic revenue is allocated to both the contracting district and the private organization. The Department of Children, Families and Learning pays 95 percent of the revenue generated by an education options student to the private provider and 15 percent to the contracting district. The share of basic revenue is reduced proportionately for part-time students who receive services from a private organization under contract. During the term of the contract, state aid is placed into an account that is reserved for the site providing the alternative education.



(Minn. Stat. §§ 124D.68; 127A.47, subd. 7)

Area Learning Center Program Funding. An area learning center may be established by a school district by itself or in cooperation with a cooperative organization, or other public and private organizations. It may serve both resident and nonresident pupils. All area learning centers outside first-class cities must serve at least two school districts. Revenue for nonresident students is transferred from the student's resident district to the district operating the area learning center in the same way revenue is transferred for open enrollment students. An area learning center operated by a cooperative organization may elect to charge tuition rather than calculate aid adjustments.

(Minn. Stat. § 123A.08)

Charter School Funding

As of November 2001, there were currently 70 charter schools operating in Minnesota serving roughly 10,000 students. Charter schools are eligible for general education revenue, special education revenue, building lease revenue, start-up grants, and certain other school district revenue.

General Education Revenue. A charter school earns general education revenue on a per pupil unit basis just as though it were a school district except for approximately \$225 per pupil unit for transportation expenses which the charter school receives only if it provides transportation services. The general education revenue paid to a charter school is paid entirely through state aid. Operating capital revenue received by the charter school may be used for any purpose.

Referendum Revenue. A charter school receives the aid portion of each enrolling student's referendum revenue based on the student's resident district referendum amount.

Special Education Revenue. A charter school receives special education revenue as though it were a school district. In addition, a charter school may bill-back to a disabled student's resident school district any eligible unreimbursed special education costs.

Transportation Revenue. A charter school is eligible for an additional amount of general education revenue of approximately \$225 per pupil unit in if it elects to provide transportation services. In the alternative, a charter school may choose to have the school district in which it is located provide transportation services. In this case, the charter school does not receive any transportation funding, and the school district must provide transportation services to the charter school attendees in the same manner as it provides transportation to its resident students and students entering the school district under the enrollment options program.

Building Lease Aid. A charter school is eligible for building lease aid equal to the lesser of \$1,500 per pupil or 90 percent of the charter school's lease costs. Charter school building lease aid was first available in fiscal year 1998.

Start-up Grants. For the first two years of a charter school's operation, the charter school is eligible for charter school start-up grant aid equal to the greater of \$50,000 per charter school, or \$500 per charter school pupil unit.

Integration Revenue. A charter school is eligible for the aid portion of integration revenue for enrolled students who are residents of a district that is eligible for integration revenue if the enrollment of the pupil in the charter school contributes to integration or desegregation purposes. This aid is separately appropriated and may be prorated if the appropriation is insufficient.

Other Aid, Grants, Revenue. A charter school is eligible to receive other aids, grants, and revenue according to the school funding formulas as though it were a school district unless the receipt of the revenue would require a local property tax levy. A charter school may receive money from any source for capital facilities needs. Any unexpended capital facilities revenue must be reserved and shall be expended only for future capital facilities purposes.

Federal Aid. A charter school is eligible for any federal aid received by the state as if the charter school were a school district.

Use of State Money. A charter school may not use state aid to purchase land or buildings.

(Minn. Stat. § 124D.11)

Table 34
Charter School Categorical Aids

Fiscal Year	Building Lease Aid	Start-up Aid
2003	\$25,176,000	\$3,143,000
2002	16,554,000	2,738,000
2001	10,667,000	2,664,000
2000	6,456,000	1,865,000
1999	1,577,000	1,000,000
1998	1,078,000	500,000

House Research Department

School Desegregation and Integration

Minnesota funds a variety of programs designed to promote integration within and among its school districts.

Integration Revenue. School districts that file integration plans with the Department of Children, Families and Learning are eligible for integration revenue. Prior to the 1999-2000 school year, only three school districts (Minneapolis, St. Paul, and Duluth) had filed integration plans. The new integration rule is requiring many more school districts to develop plans. Fifty-two districts are eligible for integration revenue during the 2001-02 school year.

Integration revenue is provided in a mix of aid and levy. For fiscal year 2000, the aid portion was increased to 67 percent of total integration revenue. For fiscal years 2001 and later, with the exception of fiscal year 2003, the aid portion is 78 percent of the district's total integration revenue. For fiscal year 2003 only, the aid percentage was lowered to 67 percent.

Table 35
Integration Revenue per Pupil

	FY 01	FY 02	FY 03 and later
Minneapolis	\$536	\$536	\$446
St. Paul	446	446	446
Duluth	207	207	207
Eligible district with more than 15% student of color	93	130	130
Other eligible districts	93	93	93

House Research Department

(Minn Stat. § 124D.86)

Table 36
**Appropriations and Levies for Integration Activities
Based on 100% Aid Entitlement**

Fiscal Year	Minneapolis		St. Paul		Duluth		Other Districts		Total	
	Aid	Levy	Aid	Levy	Aid	Levy	Aid	Levy	Aid	Levy
2003	\$13,758,000	\$8,080,000	\$13,394,000	\$7,866,000	\$1,572,000	\$923,000	\$23,272,000	\$12,729,000	\$51,996,000	\$29,598,000
2002	23,341,000	6,583,000	18,151,000	5,120,000	2,224,000	627,000	21,762,000	4,435,000	65,478,000	16,765,000
2001	23,116,000	6,520,000	19,250,000	5,430,000	2,247,000	634,000	11,216,000	3,163,000	55,828,000	12,583,000
2000	19,891,000	9,797,000	15,730,000	7,748,000	1,994,000	982,000			37,610,000	18,527,000
1999	15,515,000	13,216,000	11,961,000	10,189,000	3,097,000	1,672,000			29,148,000	24,830,000
1998	9,368,300	10,176,000	8,090,700	9,627,000	1,385,000	1,537,000			18,844,000	21,340,000
1997	9,368,300	10,168,000	8,090,700	9,588,000	1,385,000	1,406,000			18,844,000	21,162,000
1996	9,368,300	10,041,000	8,090,700	9,461,000	1,385,000	1,344,000			18,844,000	20,967,000
1995	9,638,000	9,560,000	8,090,500	8,540,000	1,385,000	1,091,000			18,844,000	19,191,000
1994	9,638,300	7,308,000	8,090,500	6,620,000	1,385,000	696,000			18,844,000	14,625,000
1993	7,782,300	8,439,000	6,676,500	6,899,000	1,385,200	625,000			15,844,000	15,963,000
1992	7,782,300	8,071,000	6,676,500	6,599,000	1,385,200	598,000			15,844,000	15,268,000
1991	7,382,300	7,772,000	6,276,000	6,312,000	1,285,200	572,000			14,944,000	14,603,000
1990	7,382,300	7,012,000	6,276,000	3,943,000	1,285,200	664,000			14,944,000	11,618,000
1989	5,950,300	3,177,000	5,081,400	3,837,000	981,800	—			12,013,600	7,313,000
1988	5,677,700	—	4,766,500	1,958,000	1,123,100	—			11,557,300	1,958,000

House Research Department

Magnet School Grants. Metropolitan magnet schools are eligible for grants to help operate the magnet programs. Grants may be used for teachers, aides, instructional services, equipment, field trips, and other programs designed to enhance metropolitan integration. Beginning in fiscal year 2001, start-up grants are also available to a metropolitan magnet school program for its first two years of operation. Start-up cost aid equals \$500 times the magnet school's pupil units served for that year. Capital funding has also been provided to help construct metropolitan magnet school facilities.

(Minn. Stat. § 124D.88)

Interdistrict Desegregation or Integration Transportation Grants. Grant money is available to provide pupil transportation services to students who participate in interdistrict desegregation or integration programs.

(Minn. Stat. § 124D.88)

Other Integration Programs. Integration programs funded under the “other” category include minority fellowship grants, the minority teacher incentives program, teachers of color program grants, and cultural exchange grants.

(Minn. Stat. §§ 122A.64; 122A.65; 124D.89; Laws 1994, ch. 647, art. 8, § 29)

Table 37
Appropriations for Integration Funding Programs

Fiscal Year	Magnet School Operating Grants	Magnet School Capital Grants**	Magnet School Start-up Aid	Interdistrict Integration Transportation	Other Integration Programs
2003	\$750,000		\$482,000	\$2,932,000	\$1,300,000
2002	750,000	1,700,000	326,000	—	1,300,000
2001	1,750,000	16,500,000	225,000	970,000	1,000,000
2000	1,750,000			970,000	1,000,000
1999	1,750,000			970,000	1,000,000
1998	5,750,000	22,200,000*		800,000	1,000,000
1997	1,500,000			630,000	1,000,000
1996	1,500,000			300,000	1,000,000
1995	1,500,000				752,000
1994		20,000,000			1,035,000

*\$1,893,000 of this appropriation was cancelled back to the general fund.
 **Appropriations are from state bond proceeds.

Vocational-Technical Education

Secondary Vocational Aid

Secondary vocational aid was eliminated after the 2000-01 school year. A district's secondary vocational aid is the lesser of:

- (a) \$73 times the district's average daily membership in grades 10 to 12; or
- (b) 25 percent of the approved expenditures for the following:
 - (1) salaries paid to essential, licensed personnel who provide direct instructional services to students;
 - (2) contracted services;
 - (3) necessary travel of licensed secondary vocational staff between instructional sites;
 - (4) necessary travel by licensed staff for vocational student organization activities held within the state;
 - (5) curriculum development;
 - (6) necessary travel of licensed staff for professional development; and
 - (7) specialized vocational instructional supplies.

An aid guarantee provides that for fiscal years 1995 and later, a school district will receive an unprorated state aid amount not less than the lesser of:

- (a) 95 percent of the secondary vocational aid received in the previous year; or
- (b) 40 percent of the approved expenditures for the secondary vocational programs.

Table 38
Secondary Vocational Aid

Fiscal Year	Appropriations	Levy
2003	\$0	\$12,658,000
2002	0	0
2001	12,417,000	0
2000	12,413,000	0
1999	11,596,000	0
1998	11,617,000	0

House Research Department

For fiscal year 2002 only, a school district may levy for secondary vocational revenue up to an amount equal to the district's aid received in 2001. The levy is 100 percent forward shifted.

(Minn. Stat. § 124D.453)

Transition Programs; Children with Disabilities

The 1978 Legislature created an aid category for children with disabilities enrolled in vocational programs in order to clarify the responsibilities of the vocational aid and special education aid programs for those children. A school district's revenue for transition programs for children with disabilities is calculated in the same fashion as regular special education revenue. The state has established a statutory cap on the total amount of revenue available for the transition program. The revenue cap is \$8,982,000 for fiscal year 2000 and \$8,966,000 for fiscal year 2001. For subsequent fiscal years, the revenue cap is increased only by the statewide growth in enrollment, as measured by average daily membership. If statewide program costs grow at a faster rate than the growth in enrollment, each district's revenue is reduced proportionately. A district's transition program revenue is calculated as follows:

- (1) The district's base revenue is calculated for the second prior year. Base revenue is equal to the sum of:
 - (a) 68 percent of essential personnel salary;
 - (b) 47 percent of equipment costs, necessary travel costs; and
 - (c) 47 percent of supply costs, but not to exceed an average of \$47 per child served.
- (2) The district's base revenue is increased by the district's growth in average daily membership from the base year to the current year.
- (3) The district's base revenue adjusted for growth in the district's enrollment is multiplied by the ratio of the district's base revenue to the state total adjusted base revenue. In essence, individual district transition program revenue will be prorated so that total revenue does not exceed the statutorily established cap.

Transition program revenue is provided entirely in state aid.

Table 39
Appropriations for Transition Programs; Aid for Disabled Children

Fiscal Year	Statewide Revenue Cap	Appropriations
2003	\$8,937,000	\$8,939,000
2002	8,953,000	8,534,000
2001	8,966,000	8,968,000
2000	8,892,000	8,892,000
1999	8,976,000	7,985,000
1998	8,924,000	7,044,000

House Research Department

Youthworks Aid

Youthworks is the name of a state grant program designed to work in concert with federal youth service programs. Youth service programs are generally designed to provide the participant with skills and training while at the same time creating an opportunity for the participant to perform tasks that benefit the community. Minnesota's Youthworks program awards grants to program providers on a competitive-grant basis. The program provider combines the state grant money with federal money and provides the participants with living expenses or a stipend, health insurance, child care if needed, and a post-service educational award of approximately \$4,700 which may be used for higher education costs or to repay student loans. For fiscal year 2000, 488 full-time equivalents participated in ten different programs that were funded through state and federal grants.

Table 40
Youthworks Aid

Fiscal Year	Appropriations
2003	\$1,788,000
2002	1,788,000
2001	1,788,000
2000	1,788,000
1999	1,838,000
1998	1,838,000

House Research Department

(Minn. Stat. §§ 124D.37-124D.45)

Education and Employment Transitions

Education and employment transitions programs, sometimes called school-to-work programs, are designed to help high school students make the transition from high school to the workforce. The education and employment transitions program is a grant program. Prior to fiscal year 2002 grants were used for: youth apprenticeship programs; entrepreneurship education grants; youth employer grants; local-regional partnership development grants; labor-management information support; state-level activities including the governor's workforce development council; and other programs designed to make connections between high school students and employers. For fiscal years 2002 and 2003, education and employment transitions revenue is limited to youth apprenticeship grants (\$450,000 per year), ISEEK (\$250,00 per year), and junior achievement program grants (\$75,000).

Table 41
Education and Employment Transitions Aid

Fiscal Year	Appropriations
2003	\$775,000
2002	775,000
2001	2,225,000
2000	3,225,000
1999	4,750,000
1998	4,725,000

House Research Department

(Minn. Stat. §§ 124D.46-124D.49)

State Academies

Lola and Rudy Perpich Minnesota Center for Arts Education

The 1985 Legislature established a board of 15 members to develop, manage, and control the Lola and Rudy Perpich Minnesota Center for Arts Education. The board has the authority to determine the location for the center, to establish a charitable foundation, and to accept and invest gifts and bequests. The center is located in Golden Valley on the former campus of Golden Valley Lutheran College. The board may also develop and pilot test an academic curriculum which includes dance, literary arts, media arts, music, theater, and visual arts. The board may provide room and board to students. If room and board is provided, the board shall charge a reasonable fee.

Since the 1985-86 school year, the resource center has offered programs directed at improving arts education in schools throughout the state. These programs include in-service workshops for teachers and summer institutes for students in various regions of the state. A resource center advisory council advises the board about the activities of the center.

Arts education is to be provided by the board to Minnesota students in the following areas:

- ▶ interdisciplinary arts and education program for 300 students in 11th and 12th grade;
- ▶ magnet arts programs through at least one school district in each congressional district;
- ▶ intensive arts seminars for one or two weeks for ninth and tenth grade pupils;
- ▶ summer arts institutes for pupils in grades nine to 12;
- ▶ artist mentor programs at regional sites; and
- ▶ teacher education programs.

(Minn. Stat. § 129C.10)

Table 42
Minnesota Center for Arts Education

Fiscal Year	Total Appropriation	Amount Reserved for Grants
2003	\$7,816,000	\$150,000
2002	7,681,000	150,000
2001	7,581,000	350,000
2000	6,908,000	350,000
1999	6,120,000	380,000
1998	5,559,000	350,000

Residential Academies

In fiscal year 1999, \$12 million was appropriated to fund capital and start-up costs for residential academies. Enrollment at a residential academy is voluntary and is available to students in grades four through 12 who are either performing below suitable performance levels or who have experienced homelessness or an unstable family environment. A parent, county worker, health care provider, school employee, or judicial employee may recommend a student for admission to a residential academy. Educational and social service funding for a student attending the academy is deemed to follow the student from the student's school district or county of residence to the residential academy as provided by law.

Two grants for residential academies have been awarded. One grant was to Catholic Charities in an amount of \$5,840,810. The Catholic Charities facility is located in Faribault, Minnesota. The second grant was to Synergy (located in Minneapolis) in an amount of \$6,159,190.

Both residential academies are associated with charter schools (Covenant Academy and Harvest Preparatory Academy) that are providing educational services to their students. As of December 2001, the Synergy program is serving seven students and the Covenant Academy is serving 21 students.

(Laws 1998, ch. 398, art. 5, sec. 46)

Minnesota State Academies for the Deaf and Blind

Minnesota operates residential academies for deaf and blind students in Faribault. The academies are both public schools and state institutions. The Minnesota State Academy for the Blind enrolled 55 pupils in fiscal year 2000 and the Minnesota State Academy for the Deaf enrolled 150 pupils in fiscal year 2000.

The academies' budgets are primarily funded through direct state appropriations. The academies also receive roughly the following in annual financial contribution from other sources: \$200,000 in federal funding; \$150,000 from school district tuition payments; \$630,000 from school districts for instructional aides; and \$260,000 in compensatory revenue. Resident school districts are responsible for the cost of transporting academy students to and from the academies.

Table 43
Appropriations for Faribault Academies

Fiscal Year	Appropriation
2003	\$10,966,000
2002	10,761,000
2001	10,258,000
2000	10,039,000
1999	8,908,000
1998	8,910,000

House Research Department

Miscellaneous Funds for Education

Abatement Aid

Abatement adjustments occur when the tax capacity of any school district is lowered after the property taxes for the year have been spread by the county auditor. If a school district is subject to an abatement adjustment, the district receives an aid payment from the state for the major equalized programs. The aid entitlement is computed as follows:

$$\text{Abatement Aid Entitlement} = \frac{\text{net revenue loss as certified by the county auditor}}{\text{district's total certified equalized levies}} \times \text{district's total certified levy for that year}$$

In essence, the purpose of the formula is to compensate school districts for the loss of tax base with additional state aid payments for the portion of the district's levy share attributable to equalized school levies.

The district is allowed to make a levy for the remainder of the revenue loss and any interest owed on abatements. A school district may levy for each year's abatement loss over a three-year period.

(Minn. Stat. §§ 126C.46; 127A.49, subd. 2)

Table 44
Abatement Aid and Levy

Fiscal Year	Appropriation	Levy
2003	\$7,692,000	\$400,000
2002	7,098,000	1,300,000
2001	8,279,000	5,299,000
2000	9,577,000	3,495,000
1999	13,612,000	7,173,000
1998	13,661,000	8,757,000

House Research Department

The abatement aid was heavily prorated in the mid-1990s. However, in recent years the appropriation has been sufficient to fully fund the abatement formula. A district may levy for the portion of abatement aid owed but not paid by the state because of aid proration.

Excess Tax Increment Payments

Tax increment districts capture the growth in tax capacity values for property within the tax increment district. If the tax increment project generates excess tax increment, and if that excess is returned to a

school district, the district's aid is reduced by the following subtraction:

$$\text{Excess Tax Increment Subtraction} = \frac{\text{the amount of the excess tax increment payment}}{\text{district's total certified equalized levies}} \times \frac{\text{district's total certified equalized levies}}{\text{district's total certified levy for that year}}$$

(Minn. Stat. § 127A.49, subd. 3)

Aid for Nonpublic School Students

Books, Materials, Tests, Health Services, Guidance, and Counseling. School districts are required to provide nonpublic school pupils with textbooks, individualized instructional materials, and standardized tests, all of which must be secular in nature and cannot be used for religious instruction or worship. In addition, a district must provide the same health services to pupils of nonpublic schools as it provides to public school pupils. Nonpublic secondary pupils must also be offered guidance and counseling services by the public secondary schools. The state reimburses districts for their costs up to the amount of the statewide average expenditure per pupil (determined as of February 1 of the preceding school year) times the number of nonpublic school pupils served, with an inflation adjustment equal to the percent of increase in the general education revenue program formula allowance from the second preceding school year. In fiscal year 2001, the reimbursement rates were set at 100 percent of the statewide average expenditures per pupil unit which were as follows: for textbooks, \$63.37; for health services, \$42.10; and for guidance and counseling, \$150.30.

(Minn. Stat. §§ 123B.40-123B.43)

Table 45
Nonpublic School Student Aid

Fiscal Year	Appropriation
2003	\$16,472,000
2002	14,099,000
2001	13,448,000
2000	10,996,000
1999	9,688,000
1998	9,430,000

House Research Department

If the appropriation for nonpublic pupil aids is insufficient to cover school districts' expenditures, the districts may correspondingly reduce their expenditures for nonpublic school pupil aids.

Shared Time Programs. Nonpublic school pupils may be admitted by school districts to public school programs for part of the school day. A district that admits nonpublic pupils receives general education aid for these pupils in an amount proportional to the time the pupils spend in the public schools. The appropriation for shared time programs is included in the basic appropriation for general education aid.

(Minn. Stat. §§ 126C.01, subsds. 6-8; 126C.19)

Table 46
Shared Time Programs

Fiscal Year	Estimated Shared Time Pupil Count	Appropriation*
2003	984	\$4,529,000
2002	965	3,926,000
2001	869	3,445,000
2000	930	3,650,000
1999	850	3,000,000
1998	805	2,833,000
1997	789	2,766,000
1996	828	2,654,000

*Appropriation included in general education appropriation.

House Research Department

Shared Time Special Education. School districts are required to provide special education programs for children with disabilities. (See page 45 for description of program requirements.) These programs must be made available to disabled nonpublic school pupils, and the district receives shared time general education aid for these pupils.

(Minn. Stat. § 125A.18)

Transportation. School districts are also required to provide equal transportation for nonpublic school pupils. This means that the district within which a nondisabled pupil resides must provide transportation for the pupil to a nonpublic school within the district if he or she lives at least the same distance from the nonpublic school as public school students in the district who are transported to school. Public schools are also permitted to transport nonpublic school pupils to regular shared time programs and must transport disabled nonpublic school pupils to and from the facility where special education is provided. Public schools must also provide nonpublic school pupils with transportation within the district boundaries between the nonpublic school and public school or neutral site⁴ for the purpose of receiving health and guidance and counseling services. State transportation aid is available for all of these transportation services to nonpublic school pupils.

Prior to fiscal year 1998, the appropriation for the transportation of nonpublic school pupils was contained in the transportation aid appropriation. For fiscal years 1998 and later, there is a line item appropriation for nonpublic pupil transportation.

⁴ Neutral site is defined by Minnesota Statutes, section 123B.41, subdivision 13, and means a public center, a nonsectarian nonpublic school, a mobile unit located off the nonpublic school premises, or any other location off the nonpublic school premises which is neither physically nor educationally identified with the functions of the nonpublic school.

Nonpublic pupil transportation aid equals the sum of: (1) the product of the district's actual expenditures in the second preceding year for all pupils transported in the regular and excess categories, the number of nonpublic pupils receiving those services in the current year, and the ratio of the formula allowance in the current year to the allowance for the second previous year; and (2) the district's actual expenditure for nonpublic nonregular transportation in the second preceding year times the ratio of the formula allowance in the current year to the allowance for the second preceding year.

(Minn. Stat. §§ 123B.84-123B.87; 123B.92, subd. 9)

Table 47
Nonpublic Pupil Transportation

Fiscal Year	Nonpublic FTEs	Appropriations
2003	N/A	\$24,802,000
2002	N/A	20,488,000
2001	N/A	21,333,000
2000	N/A	20,358,000
1999	N/A	24,303,000
1998	68,729	16,810,000

House Research Department

Education for Limited English Proficient Students. The Education for Limited English Proficient (LEP) Students Act requires districts providing state-funded LEP programs to offer nonpublic school pupils access to the same programs on the same terms as public school pupils. (See page 18 for additional information on LEP programs.) In addition to counting nonpublic school pupils for purposes of LEP funding, those pupils may also be counted by the district serving them for purposes of shared time general education aid.

(Minn. Stat. §§ 124D.65, subd. 6; 124D.58-124D.64)

School Lunch and Breakfast Aid

The state pays aid to school districts for each school lunch served to a student. The state aid amounts to 8.0 cents per full paid, reduced, and free student lunch. The state aid is in addition to federal funds provided to districts for full paid, reduced price, and free lunches. The state appropriation allows up to \$800,000 each year to be spent on school milk aid.

The state also pays aid to school districts that participate in the federal school breakfast program. The state pays 5.1 cents for each fully paid breakfast served and for each free and reduced price breakfast not eligible for the "severe need" rate. In addition, the state pays an additional 10.5 cents for each breakfast not eligible for the severe need rate if between 33 percent and 40 percent of the school lunches served during the second preceding year were served free or at a reduced price. A school district is required to offer a breakfast program if at least 33 percent of the school lunches served during the second preceding year were served free or at a reduced price.

Federal funds for school nutrition programs are substantial. For fiscal year 2000, these funds included \$68.5 million for lunch programs, \$400,000 for after school snacks, \$15 million in commodity value, \$14.2 million for breakfast programs, and \$800,000 for the special milk program.

(Minn. Stat. §§ 124D.111-124D.119)

Fast Break to Learning

The Fast Break to Learning program provides funding for targeted breakfast programs. Forty-one schools are permanently designated. If funds remain, additional sites serving at least 33 percent free or reduced price meal eligible students may be qualified. The state revenue fills the gap between the total breakfast costs and the federal reimbursement for these programs.

Table 48
School Lunch, Milk, and Breakfast Aid

Fiscal Year	Appropriations for School Lunch Aid	Appropriations for School Breakfast Aid	Appropriations for Fast Break to Learning
2003	\$8,950,000	\$700,000	\$2,839,000
2002	8,710,000	640,000	2,446,000
2001	8,566,000	713,000	2,523,000
2000	8,340,000	713,000	2,477,000
1999	7,770,000	456,000	—
1998	7,254,000	456,000	—

House Research Department

Miscellaneous Maintenance Levies

The following miscellaneous levies have been statutorily authorized for a variety of purposes:

To pay the liabilities of dissolved districts: Minn. Stat. §§ 123A.67; 126C.43

To pay transition expenses of a district created by consolidation: Minn. Stat. §§ 123A.76; 126C.43

To pay for unpaid judgments: Minn. Stat. §§ 126C.43; 126C.47

To pay unemployment insurance costs: Minn. Stat. §§ 126C.43, subd. 2; 268.052, subd. 1; 268.085

The Minneapolis school district may levy a per pupil unit amount based on its 1978 levy for municipal retirement for nonteaching employees, but the amount allowed is reduced each year by 10 percent of the difference between its 1972 and 1976 contribution to this retirement fund: Minn. Stat. § 126C.41, subd. 3.

The Minneapolis school district may levy 0.1 percent of ANTC for purposes of subsidizing health insurance costs for certain retired teachers: Minn. Stat. § 126C.41, subd. 4.

The St. Paul school district may levy up to 0.21 percent of ANTC for payment of severance pay obligations: Laws 1975, ch. 261, § 4, as amended.

Income Tax Deductions and Credits

Education Income Tax Credit

Minnesota enacted an education tax credit in the first special session of 1997, with the credit first available in tax year 1998. Parents may claim the credit for all education-related expenses that qualify for the dependent education expense deduction, except nonpublic school tuition. Thus, the credit is allowed for transportation, tuition for academic summer school and summer camps, tutoring, and textbooks, defined to include instructional materials and equipment, including up to \$200 per family of computer hardware and educational software. For tax years after December 31, 2001, the credit equals 75 percent (instead of 100 percent) of the amount of qualified education-related expenses.

The maximum credit is \$1,000 per child and \$2,000 per family. The credit is refundable. Any amount that exceeds tax liability is paid to the claimant as a refund. Claimants with incomes under \$33,500 may claim the full credit. The maximum credit is phased out for claimants with household income between \$33,500 and \$37,500. The income measure used to determine eligibility for the credit is a broad measure that includes nontaxable interest, Social Security, and public welfare benefits; the same income measure is used under the property tax refund and the dependent care credit.

Tax credits directly offset tax liability, unlike deductions, which reduce taxable income. In the case of refundable credits, the benefit to the taxpayer exactly equals the amount of the credit claimed. If a refundable credit exceeds a taxpayer's income tax liability, the excess is refunded to the taxpayer. This is accomplished by providing an open appropriation to the Commissioner of Revenue to pay refunds allowed under the credit.

A refundable credit provides the same benefit to all claimants, regardless of income. As a result, filers who claim an education tax credit of \$1,000 will receive a \$1,000 benefit. For those with tax liability, the benefit comes in the form of reduced taxes. Filers without tax liability receive a \$1,000 refund check. Taxpayers may not claim the deduction and credit for the same expenses. Parents who qualify for both the deduction and credit will receive the greatest benefit by first claiming up to the maximum allowable under the credit, and then claiming any remaining expenses under the deduction.

A qualifying taxpayer may assign all or a part of an anticipated income tax refund to a financial institution or a tax-exempt organization. This authority is for tax years 2002 and 2003.

(Minn. Stat. § 290.0674)

Education Income Tax Deductions

For state income tax purposes, taxpayers may deduct from federal taxable income the amounts they spend for tuition, secular textbooks, and transportation of dependents attending public or nonpublic elementary or secondary schools in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin. The maximum deductions are \$1,625 per dependent in grades kindergarten through six, and \$2,500 per dependent in grades seven through 12.

A deduction reduces the amount of income subject to tax; the benefit a taxpayer receives equals the taxpayer's marginal tax rate times the amount of the deduction. Most Minnesota taxpayers are in the 7.05 percent bracket, where a \$2,500 deduction decreases state income taxes by \$176.25 (.0705 x \$2,500).

The constitutionality of this tax deduction was upheld in 1983 by the U.S. Supreme Court in the case of *Mueller v. Allen*. In a 5-4 decision affirming the lower courts' decisions, the Supreme Court held that the tuition tax deduction statute did not violate the Establishment Clause of the First Amendment.

(Minn. Stat. § 290.01, subd. 19b)

Table 49
**Estimated Cost to State in
 Foregone Tax Revenue**

Fiscal Year	Tax Expenditure Amount for Credit	Tax Expenditure Amount for Deduction
2003	\$17,400,000	\$17,500,000
2002	22,100,000	16,700,000
2001	24,000,000	18,300,000
2000	20,000,000	17,500,000
1999	21,400,000	13,400,000
1998	14,200,000	11,700,000

Source: Minnesota Department of Revenue tax expenditure estimates

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For more detailed information about Minnesota's K-12 education tax credit and deduction, see *Income Tax Deductions and Credits for Public and Nonpublic Education in Minnesota*, by Nina Manzi and Lisa Larson, House Research Department.

Tax Relief Aids and Aids in Lieu of Taxes

Property taxes have traditionally provided the revenue necessary to operate local governments and provide services at the local (city, town, county, or school district) level. In addition to direct state aids for specific programs, the state also provides general property tax relief for certain classes of property through property tax aids, credits, and reimbursements.⁵ State aid payments are primarily from revenue raised by income and sales and use taxes and are used to reduce the property taxes that would otherwise be necessary to fund the specified levels of local services.

For school districts, a number of state aids are paid either to provide tax relief or to compensate for the presence in the district of particular types of property—property that is not taxable or that is taxed in some way by the state. The amounts of these tax relief aids and aids in lieu of taxes are deducted from local levies and (sometimes) general education program aid, so that districts receiving these aids do not have excessive funds available beyond the amount provided by the general education aid formula.

The property tax aids and credits to school districts were significantly altered for fiscal year 2003 due to the state taking over the general education revenue program. Two large credits that were applied to school district levies, the education homestead credit and the education agricultural credit, have been eliminated and replaced with two smaller credits called the homestead market value credit and the agricultural market value credit.

Homestead Market Value Credit

The homestead market value credit is a new property tax credit first effective for taxes payable in 2002. Each property classified as residential homestead or agricultural homestead will receive the credit. The credit is computed as a percentage of the homestead's market value; in the case of an agricultural homestead, only the market value of the house, garage, and surrounding one acre of land is used in the credit computation. The formula for determining each property's credit is 0.4 percent of the first \$76,000 of a property's market value, minus .09 percent of the property's market value over \$76,000.

The maximum credit is \$304, which is the amount that a property valued at \$76,000 would receive. A home valued at \$50,000 would receive a credit of \$200 ($.4\% \times \$50,000$). A home valued at \$100,000 would receive a credit of \$282.40 ($\$304 - (.09\% \times \$26,000)$). Homes valued at \$414,000 and above receive no credit.

The credit is subtracted from each homeowner's net tax capacity-based tax (which is determined by multiplying the property's net tax capacity by the local tax rate of each jurisdiction with taxing authority over the property). The credit subtraction is distributed across taxing jurisdictions in proportion to each jurisdiction's share of the net tax capacity tax. The state makes a payment to each taxing jurisdiction in the state to compensate for the reduction in each taxpayer's tax resulting from the credit in the calendar year in which the taxes are paid.

(Minn. Stat. § 273.1384, subd. 1)

⁵ A property tax aid is a state payment to a local unit of government to help pay for services. A property tax credit is defined as a reduction in a taxpayer's property tax payment, and the taxing jurisdiction receives an equal amount from the state to make up for the tax reduction. A property tax reimbursement is a payment in lieu of taxes from the state to the local unit of government for a piece of property that would not normally generate property tax revenue.

Table 50
Homestead Credit

Payable Year	School Share of Homestead Market Value Credit	Education Homestead Credit
2002	\$77,400,000	\$0
2001	0	403,000,000
2000	0	394,400,000

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Agricultural Market Value Credit

The agricultural market value credit is a new property tax credit first effective for taxes payable in 2002. Each property classified as agricultural homestead will receive the credit. The credit is computed as a percentage of the property's market value; excluding the market value of the house, garage, and surrounding one acre of land. The formula for determining each property's credit is 0.2 percent of the property's market value, to a maximum of \$230. The maximum credit of \$230 is reached at a market value of \$115,000.

The credit is subtracted from each property's net tax capacity tax (which is determined by multiplying the property's net tax capacity by the local tax rate of each jurisdiction with taxing authority over the property). The credit subtraction is distributed across taxing jurisdictions in proportion to each jurisdiction's share of the net tax capacity tax. The state makes a payment to each taxing jurisdiction in the state to compensate for the reduction in each taxpayer's tax resulting from the credit in the calendar year in which the taxes are paid.

(Minn. Stat. § 273.1384, subd. 2)

Table 51
Agricultural Credit

Payable Year	School Share of Agricultural Market Value Credit	Education Agriculture Credit
2002	\$3,800,000	\$0
2001	0	55,100,000
2000	0	46,000,000

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Homestead and Agricultural Credit Aid (HACA)

HACA was eliminated for taxes payable in 2002 and later. HACA was a general state aid provided to most taxing jurisdictions in the state. HACA initially replaced the homestead credit and the agricultural credit, programs that existed prior to 1990. Later it was used to pay for losses of tax base because of legislatively enacted changes in property class rates.

HACA for school districts was being phased out. Because school district HACA was not closely connected to most measures of school district need for state aid or property tax relief, other types of school district property tax relief have been substituted for HACA. The first reduction in HACA accompanied an increase in referendum revenue equalization aid. The second reduction in HACA accompanied the elimination of the special education levy. Beginning in fiscal year 1997 (taxes payable in 1996), each school district's HACA was reduced annually by the lesser of one-fourth of the school district's total HACA or 1 percent of the district's assessment year 1994 adjusted net tax capacity (ANTC). Although there was no formal link between the two programs, legislators intended that the statewide reduction of HACA would be offset by a nearly equivalent increase in state aid due to the elimination of the levy portion of special education revenue.

Table 52
School District HACA

Fiscal Year	HACA
2003	\$0
2002	13,700,000
2001	24,700,000
2000	35,900,000
1999	64,100,000
1998	90,800,000
1997	117,500,000
1996	146,000,000
1995	138,000,000
1994	187,000,000
1993	166,000,000
1992	145,000,000

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(Minn. Stat. § 273.1398)

Disparity Reduction Aid

Disparity reduction aid is designed to provide property tax relief to taxing areas that have relatively high tax rates. Disparity aid is calculated on the basis of unique taxing areas based on taxes payable in 1988 property tax characteristics. Disparity reduction aid serves to reduce the total tax rate of unique taxing area (UTA) that have relatively high tax rates.

Disparity reduction aid is equal to the previous year's disparity reduction aid multiplied by the ratio of (1) the area's tax capacity using class rates for taxes payable in the year for which aid is being computed, to (2) its tax capacity using the class rates for taxes payable in the prior year, both based upon market values for taxes payable in the prior year.

Disparity reduction aid is calculated on the basis of unique taxing areas. The amount of disparity reduction aid allocated to each local unit of government is in proportion to that unit of government's gross taxes payable to total gross taxes payable. School debt service and excess referendum levies are excluded from gross taxes payable for purposes of allocating disparity reduction aid.

(Minn. Stat. § 273.1398, subd. 3)

Taconite Homestead Credit

Homeowners in a taconite property tax relief area have their property taxes reduced by the taconite homestead credit. The taconite homestead credit is subtracted from each homestead taxpayer's gross property tax. For taxes payable in 2002 and later, the definition of "taconite tax relief area" was amended to exclude a school district whose boundaries are more than 20 miles from a taconite mine or plant. This new definition excludes the Aitkin, Crosby-Ironton, and Grand Rapids school districts from receiving taconite property tax relief under this program. However, taxpayers in these districts continue to receive the same amount of relief through a state-funded program called "supplemental homestead credit."

For homestead property located in a city or town that has a taconite facility, taconite power plant, or on which more than 40 percent of its valuation in 1941 was iron ore, the taconite homestead credit for taxes payable in 2001 is 66 percent of the tax on the property, up to a maximum credit of \$315.10. For homestead property located outside such a city or town, but located within a school district that contains a taconite city or town, the taconite homestead credit is 57 percent of the tax on the property, up to a maximum credit of \$289.80.

For taxes payable in 2001, the taconite homestead credit reduced school, city, and county property taxes by approximately \$15,500,000.

(Minn. Stat. §§ 273.134; 273.135)

Taconite Aid

The taconite industry is generally exempt from local property taxes and, instead, is subject to a series of taxes including production taxes, excise taxes, royalty taxes, and occupation taxes. The majority of mining industry revenues are received through the taconite production tax. The proceeds of the taconite production tax are required to be deposited into a variety of funds, and state statutes also contain formulas to provide for the distribution of revenues received from the taconite production tax. The 15 school districts in the taconite relief area received about \$20 million in production year 2000 from the taconite production tax. However, changes made by the 2001 Legislature shifted the majority of school district taconite relief to cities and towns. This change was prompted by the elimination of the general education levy.

The taconite production tax is set at \$2.173 per taxable ton for 2000 and reduced to \$2.103 for taxes payable in 2001, 2002, and 2003. Starting in 2004, this amount is to be inflated by the rate of increase in the implicit price deflator. For the 2000 distribution of taconite production tax revenue, 48.7 cents of the 214.1 cent taconite production tax is payable to school districts (not including the taconite homestead credit payments). Prior to taxes payable in 2002, payments to school districts were made through the School Taconite Fund (\$.0446), the Regular School District Fund (\$.1782), the Taconite Referendum Fund, the Taconite Railroad Fund, and the school bond fund. For taxes payable in 2002 and later, the distribution of the taconite production tax is shifted from the schools to cities and towns and the school payments from the school taconite fund, regular school district fund and the taconite railroad fund are eliminated. As a result, gross school district taxes for these districts will be much higher than in the previous year.

For more information on the interrelationship between school districts and taconite revenue see the *Minnesota Mining Guide*, published annually by the Department of Revenue.

(Minn. Stat. §§ 126C.48, subd. 8; 298.28, subd. 4; 477A.15)

Taconite Referendum Fund. In 1981, the legislature acted to allow taconite revenue to be used to equalize referendum levies in taconite districts. A taconite district receives an additional \$175 per pupil unit if the district has passed a referendum levy or had a referendum in place prior to the 2001 legislative session. The district receives additional taconite revenue according to the following formula:

$$\begin{aligned} \text{Taconite} \\ \text{Referendum} \\ \text{Revenue} &= [(\$175 \times \text{Pupil Units}) - (1.8\% \times \text{ANTC})] \times \text{the lesser of:} \\ &\quad (1) \text{ one; or} \\ &\quad (2) \frac{\text{referendum levy certified in the previous year}}{1.8\% \times \text{ANTC}} \end{aligned}$$

For purposes of the above calculation, the number of pupil units in the district in 1983-84 is used if that number is higher than the number of pupil units in the current year. A portion, \$25 per pupil unit, must be reserved for outcome-based learning programs that enhance the academic quality of the district's curriculum or for early childhood programs.

The money used to equalize referendum levies in taconite districts is limited to an amount equal to 21.3 cents per ton of taconite produced in the state times the increase in the implicit price deflator. If this amount is insufficient, the entitlement of \$175 per pupil unit is reduced so that the formula distributes no more money than the amount available.

Table 53
**Estimated Taconite Revenue Used
to Equalize Referendum Levies**

Fiscal Year	Equalization Revenue
2003	\$4,680,000
2002	4,680,000
2001	4,680,000
2000	4,907,000
1999	4,880,000
1998	4,800,000

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Taconite School Bond Payments. On six different occasions since 1988, the legislature has authorized through special law the partial repayment of some taconite school district building bonds through additional taconite payments. Twelve of the 15 school districts eligible for taconite aid have received assistance under these laws. In most of the cases, the local school district remains responsible for 20 percent of the bond repayment amount and the remainder of the bond repayment is from taconite revenue. The local percentage has ranged from 0 percent to 30 percent depending on the situation of the taconite school district receiving the assistance. For the 2001 production year, the school bond payments amounted to roughly \$4.4 million. This method of payment has replaced the taconite debt service credit.

Taconite Debt Service Credit. Taconite companies that are subject to a direct tax for payment of school district bond principal and interest are allowed a credit against the production tax. The amount of the credit is limited to four cents per gross ton of taconite concentrate. This method is no longer being used to help pay for school building projects and as of the 2000 production year, no credits remain.

(Minn. Stat. § 298.24, subd. 3)

Attached Machinery Aid

In 1973, the legislature acted to exempt "attached machinery" from real property taxation. Attached machinery means tools, implements, machinery, or equipment which are attached to or installed in real property for use in business or production. To replace the revenue which school districts lost as a result of this exemption, the legislature provided for state attached machinery aid to school districts.

Each year, school districts receive attached machinery aid equal to 90 percent of:

- ▶ the 1972 assessed value of attached machinery exempted from taxation by Laws 1973, chapter 650, article XXIV, section 1; times
- ▶ the sum of the 1973 mill rates for the following levies:
 - (1) levies for debt service including amounts necessary to pay principal and interest on debt service loans and capital loans;

- (2) levies for teacher retirement fund contributions in first-class cities; and
- (3) 1972 excess levies.

No attached machinery aid will be paid to school districts where the attached machinery aid entitlement amounts to less than \$10 per pupil unit.

The total general fund levy is reduced by the amount of attached machinery aid received.

(Minn. Stat. § 273.138, subd. 3)

Other Property Tax Aids, Credits, and Reimbursements

There are a variety of other property tax credits and reimbursements that are authorized by statute. These property tax aids and credits include: county conservation credit; disaster reduction credit; enterprise zones; border city disparity; powerline credit; and agricultural preserves.

(Minn. Stat. §§ 273.119 (County Conservation Credit); 273.123 (Disasters); 273.1312 and 273.1314 (Enterprise Zones); 273.1398, subd. 4 (Disparity Reduction Credit); 273.42 (Powerline Credit); 473H.10 (Agricultural Preserves))

Table 54
**Other Property Tax Credits
Taxes Payable 2001**

Credit	Amount of Credit
Taconite Tax Credit	\$15,700,000
Disparity Reduction Credit	5,400,000
Power Line Credit	133,000
Agricultural Preserves Credit	319,000
Enterprise Zone Credit	3,000
Disaster Credit	35,000
Total of Other Credits	\$21,590,000

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Teacher Retirement

Teachers, administrators, nurses, librarians, social workers, counselors, and other professional personnel employed in Minnesota's public schools, including charter schools, are provided retirement benefits through four teacher retirement fund associations. The largest of the funds is the statewide Teachers' Retirement Association (TRA). The three smaller funds are separate retirement associations for teachers employed by the first-class city school districts: Minneapolis, St. Paul, and Duluth.

Prior to fiscal year 1987, the state paid all employer obligations to the teacher retirement funds and Social Security. For fiscal years 1987 and 1988, a new state aid formula for teacher retirement was instituted that required school districts to make employer contributions for amounts in excess of the state aid payments. Since fiscal year 1989, school districts have been required to make all employer contributions for teacher retirement and Social Security directly from their undesignated general fund revenue. No separate categorical aid for teacher retirement exists. However, special state aid is paid from the state to the St. Paul and Minneapolis school district retirement funds to reduce the unfunded liability in those funds.

Employer Contributions

The employer's share of retirement contributions on behalf of all TRA members had been paid by the state since the establishment of the fund in 1915. Employer contributions for teachers employed in first-class cities had been solely the state's responsibility since 1975, although state aid for first-class city teacher retirement costs began in 1968. The state had also paid employer contributions to Social Security for all members of coordinated retirement plans; that is, those plans which also provide Social Security benefits upon retirement.⁶

Employer contributions to the retirement funds are calculated as a percentage of each employee's salary. These rates are recommended by the Legislative Commission on Pensions and Retirement and are set in statute. The following table shows the employer contribution rates for fiscal year 2003, the number of active members for whom employer contributions are made as of June 30, 2001, and the fund assets and liabilities as of July 1, 2001.

(Minn. Stat. §§ 354.42; 354.43; 355.01-355.08; 355.41-355.60 (Statewide TRA); 354A.12; 355.201-355.288 (Cities of the First Class))

⁶ Coordinated plans include Social Security coverage; and employer contributions to Social Security are required. Basic plans do not include Social Security coverage and, therefore, require higher employer contribution rates to the retirement fund. Since 1959, all new members of the statewide TRA have been required to be covered under the coordinated plan. Minneapolis and St. Paul offered coordinated plans beginning in 1978. All active members of the Duluth association are covered by coordinated plans.

Table 55
**Employers' Contribution Rates, Membership Counts,
 and Fund Assets and Liabilities By Retirement Plan**

Fund	July 1, 2001 Active Membership	FY 03 Employer Contribution Rate	July 1, 2001 Actuarial Assets (in millions)	July 1, 2001 Liabilities (in millions)
Statewide TRA			\$16,834	\$15,904
Coordinated Plan	71,090	5%		
Basic Plan	7	9%		
Minneapolis TRA			\$940	\$1,394
Coordinated Plan	4,426	8.14%		
Basic Plan	882	12.14%		
St. Paul TRA			\$869	\$1,061
Coordinated Plan	4,096	8.34%		
Basic Plan	575	11.64%		
Duluth TRA			\$274	\$254
Coordinated Plan	1,420	5.79%		
Basic Plan	N/A	N/A		

Source: Legislative Commission on Pensions and Retirement

House Research Department

Changes in School District Employee Retirement Funds

The 1997 Legislature significantly modified employer contribution rates and state payments to first-class city teacher retirement funds. Specifically:

- ▶ The additional contribution required of TRA employers was dropped from 3.64 percent of payroll to 1.64 percent of payroll effective July 1, 1997. This savings in employer contribution to the fund is recaptured by the state through a corresponding reduction in each TRA district's general education revenue (see page 25 for details);

- ▶ The remaining additional TRA employer contribution of 1.64 percent of payroll was eliminated March 31, 1998. This savings in employer contribution is a direct savings to each TRA school district and is not offset through a school district aid reduction.
- ▶ The state aid recaptured from school districts attributable to the drop in the additional employer contribution from 3.64 percent to 1.64 percent of payroll is reallocated in payments to first-class city teacher funds. The annual payments for fiscal years 1999 and later are \$486,000 for the Duluth fund, \$2,827,000 for the St. Paul fund, and \$12,954,000 for the Minneapolis fund.

Social Security and Medicare

The employer's Social Security contribution is determined by Congress. Beginning in 1991, the maximum salary base subject to the Medicare rate is greater than the maximum salary base subject to the Social Security contribution rate. Congress both establishes the rates of taxation and specifies the maximum amount of an employee's salary that is subject to the taxes. The following contribution rates apply to all employers. The school districts' Social Security contributions are made on behalf of employees in coordinated plans.

Table 56
Social Security and Medicare Employer Contribution Rates

Calendar Year	Social Security Contribution Rate	Medicare Contribution Rate	Social Security Maximum Salary	Medicare Maximum Salary
2002	6.2%	1.45%	\$84,900	unlimited
2001	6.2	1.45	80,400	unlimited
2000	6.2	1.45	76,200	unlimited
1999	6.2	1.45	72,600	unlimited
1998	6.2	1.45	68,400	unlimited
1997	6.2	1.45	65,400	unlimited

School District Accounting

Two aspects of school district accounting are of major significance to the legislature: the accounting system that school districts are required to use, because it provides an important view of school districts' financial status; and the accounting methods that the legislature uses to pay or meter revenue to school districts, because it provides a way to carefully manage the state's payment of funds to the local school districts.

School District Accounting System

Uniform Financial Accounting and Reporting System (UFARS). The legislature requires school districts to adopt and use a uniform system of records and accounting for public schools. The adopted system, a modified accrual accounting system, is known as Uniform Financial Accounting and Reporting System (UFARS). UFARS is important because it provides a uniform basis for comparing and evaluating school district revenue and expenditures. Under UFARS, every district must maintain the following funds:

Table 57
School Funds

Fund Number	Operating Fund Name
1	General
2	Food Service
4	Community Service
Fund Number	Nonoperating Fund Names
6	Building Construction
7	Debt Redemption
8	Trust & Agency

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(Minn. Stat. §§ 123B.75-123B.83)

The UFARS statute (Minn. Stat. § 123B.79) generally prohibits a district from permanently transferring money from an operating fund to a nonoperating fund, although a procedure is set forth in statute for the Commissioner of Children, Families and Learning to approve transfers in exceptional circumstances. Also, the creation by the 1995 Legislature of operating capital revenue accounts in the general fund means that districts can spend any undesignated or unreserved general fund money for capital equipment and facilities purposes. Additionally, almost every year the legislature approves specific fund transfers for individual school districts.

In contrast to the usual limitations on fund transfers, the 1991 Legislature authorized two types of fund transfers:

- ▶ **Reorganization Fund Transfers:** A school district that has reorganized may make permanent transfers between any of the funds in the newly created or enlarged district, with the exception of the debt redemption fund. These fund transfers may be made only during the year following the effective date of the district's reorganization.
- ▶ **Nonoperating Fund Transfer:** On June 30, 1992, a school district could transfer money from its capital expenditure fund and from its debt redemption fund (to the extent the funds are not needed to make debt service payments) to the transportation fund, capital fund, or debt redemption fund.

The UFARS statute also prescribes the fiscal years when revenues and expenditures are to be recognized on district books. The legislature uses these recognition provisions to distribute state aid payments to school districts and to balance the state budget. The revenue recognition procedures established by the legislature determine a district's operating debt and expenditure limitations.

Statutory Operating Debt. Operating debt is defined as the net negative unappropriated fund balance on June 30 of any year in all of the school district's operating funds. Districts for which the operating debt is greater than 2.5 percent of the expenditures in operating funds in the most recent fiscal year are considered to be in statutory operating debt.

Statutory Operating Debt Levies. A series of levies have been approved to allow districts to pay off past debt amounts; the levy authority keys off the year of the district's operating deficit.

- ▶ **1977 Operating Debt Levy.** The Commissioner of Children, Families and Learning was required to determine the operating debt of each school district as of June 30, 1977, using a uniform auditing procedure. School districts in statutory operating debt as of June 30, 1977, are required to levy 1.66 percent of ANTC each year for the purpose of eliminating this debt. The proceeds of the levy are to be placed in a special fund designated for this purpose. The proceeds are to be used only for cash flow requirements, not for increasing expenditures or budgets. Once the statutory operating debt is eliminated, the statutory operating debt levy must be discontinued. The levy may not be made in more than 30 successive years. If desired, a district may use its unappropriated operating fund balance to reduce or eliminate its statutory operating debt and reduce its statutory operating debt levy accordingly.

(Minn. Stat. §§ 123B.79; 123B.81; 126C.42, subd. 1)

- ▶ **1983 Operating Debt Levy.** Districts which have a net deficit in all operating funds as of June 30, 1983 (aside from any statutory operating debt), may make an operating debt levy to eliminate this deficit. The amount of the levy is 1.85 percent of ANTC per year, but the sum of the levy for all years may not exceed the lesser of: (1) the district's actual operating debt as of June 30, 1983; or (2) the sum of budget cuts for the district made by the state for fiscal year 1983. This authority was repealed effective July 1, 2001.

(Minn. Stat. § 123B.81; 126C.42, subd. 2)

- ▶ **1985 General Fund Deficit Levy.** Districts which have a deficit in the general fund as of June 30, 1985, are authorized to make a levy to eliminate the deficit. The amount of the levy is 1.85 percent of ANTC per year, not to exceed the amount of the general fund deficit as of June 30, 1985. The levy can be made each year until the entire amount of the deficit as of June 30, 1985, has been levied. Eligible districts may levy under this provision or the provision authorizing the 1983 operating debt levy, but not both. This authority was repealed July 1, 2001.

(Minn. Stat. § 123B.81; 126C.42, subd. 3)

- ▶ **1992 Operating Debt Levy.** Districts which have a deficit as of June 30, 1992, may levy the lesser of 1 percent of ANTC or \$100,000 per year until 2003 to retire their debt.

(Minn. Stat. § 123B.81; 126C.42, subd. 4)

Expenditure Limitations. Beginning in fiscal year 1978, a school district in statutory operating debt must limit its expenditures in each fiscal year such that its statutory operating debt is not greater than it was on June 30, 1977, increased by 2.5 percent of the district's operating expenditures for the fiscal year at hand. School districts not in statutory operating debt must limit expenditures so that they do not incur a statutory operating debt. If a district exceeds these expenditure limitations, it must submit a special operating plan to reduce its deficit expenditures to the Commissioner of Children, Families and Learning for approval. If the plan is disapproved, the district receives no state aid until a plan is approved.

(Minn. Stat. § 123B.83)

State Accounting Measures

Property Tax Shift and Levy Recognition. In 1998, the legislature eliminated the property tax recognition shift, which had been in place 16 years. (NOTE: a school district's referendum revenue remains shifted, but there is no statewide aid impact to this shift.) First enacted in 1982, the legislature altered the way in which school property taxes are recognized for state accounting purposes. Because the state uses a cash system of accounting when paying school districts, and school districts use an accrual system of accounting when receiving state aids, a change in the recognition of the property taxes that are paid to school districts by the county treasurer in June of each year allows the state to delay a certain portion of state aid payments to school districts until after July 1. This procedure allows the state to balance its books in a current fiscal year by postponing an aid payment to a school district until the following fiscal year.

Prior to the creation of the property tax recognition shift, the full amount of the first-half property tax payment, received by school districts in June, was revenue attributable to the following fiscal year (which begins July 1). As a result of the shift, the state delayed paying a portion of the aid payments to school districts, and instead, required the school districts to "borrow" or recognize early, the statutorily specified portion of the June property tax payment instead of receiving the state aid payments. The shift is a one-time savings to the state, unless the shift percentage is increased or the total amount of net school levy increases. The net effect for most school districts is that the state aid payments promised for the late spring (primarily April, May, and June) were delayed until the following fiscal year, and the district instead relied on the June property tax payment from the county to meet its financial obligations during the late spring (generally for April, May, and June). Because of the property tax recognition shift, many school districts engaged in short-term borrowing in order to meet their cash flow needs during the late spring.

Since the shift was instituted in fiscal year 1983, the shift percentage fluctuated greatly. The shift percentage was first instituted at 32 percent in fiscal year 1983, and reached the maximum amount possible (50 percent) in fiscal year 1993, but was reduced by the 1994 Legislature to 37.4 percent for fiscal years 1994 and 1995. The shift percentage was initially expected to increase to 48 percent for fiscal year 1996, but because of a substantial state general fund budgetary balance, the percentage was reduced to 18 percent for fiscal year 1996. The shift was reduced to 7 percent for fiscal years 1997 and 1998 and funds sufficient to eliminate the shift for fiscal year 1999 and later were appropriated by the 1998 Legislature. Table 58 shows the amount of the shift percentage for each of the years since its inception.

The following table illustrates the relationship among the years for the assessment valuation and the certification, collection, and use of levies. For fiscal year 2000 and later, 0 percent of the levy is shifted back into the previous fiscal year.

Table 58
 Relationship Among the Years

Assessment Year	December When Levy is Certified	Calendar Year When Levy is Collected	Fiscal Year	School Year When Levy is Used (Percent Shifted is in bold)
1980	1981	1982	FY 1983	= 1982-83 school year
1981	1982	1983	FY 1983 FY 1984	= 1982-83 school year: 32% of levy = 1983-84 school year: 68% of levy
1982	1983	1984	FY 1984 FY 1985	= 1983-84 school year: 32% of levy = 1984-85 school year: 68% of levy
1983	1984	1985	FY 1985 FY 1986	= 1984-85 school year: 24% of levy = 1985-86 school year: 76% of levy
1984	1985	1986	FY 1986 FY 1987	= 1985-86 school year: 24% of levy = 1986-87 school year: 76% of levy
1985	1986	1987	FY 1987 FY 1988	= 1986-87 school year: 24% of levy = 1987-88 school year: 76% of levy
1986	1987	1988	FY 1988 FY 1989	= 1987-88 school year: 27% of levy = 1988-89 school year: 73% of levy
1987	1988	1989	FY 1989 FY 1990	= 1988-89 school year: 27% of levy = 1989-90 school year: 73% of levy
1988	1989	1990	FY 1990 FY 1991	= 1989-90 school year: 31% of levy = 1990-91 school year: 69% of levy
1989	1990	1991	FY 1991 FY 1992	= 1990-91 school year: 31% of levy = 1991-92 school year: 69% of levy
1990	1991	1992	FY 1992 FY 1993	= 1991-92 school year: 37% of levy = 1992-93 school year: 63% of levy
1991	1992	1993	FY 1993 FY 1994	= 1992-93 school year: 50% of levy 1993-94 school year: 50% of levy
1992	1993	1994	FY 1994 FY 1995	= 1993-94 school year: 37.4% of levy 1994-95 school year: 63.6% of levy
1993	1994	1995	FY 1995 FY 1996	= 1994-95 school year: 37.4% of levy 1995-96 school year: 81% of levy
1994	1995	1996	FY 1996 FY 1997	= 1995-96 school year: 19% of levy 1996-97 school year: 93% of levy
1995	1996	1997	FY 1997 FY 1998	= 1996-97 school year: 7% of levy 1997-98 school year: 93% of levy
1996	1997	1998	FY 1998 FY 1999	= 1997-98 school year: 7% of levy 1998-99 school year: 100% of levy
1997	1998	1999	FY 1999	= 1998-99 school year: 0% of levy 1999-00 school year: 100% of levy

Appropriations Caps. A state budgetary tool developed in the early 1990s by the governor and the Department of Finance is the appropriations cap. The appropriations cap is line-item dollar value, regardless of base budget or formula driven state aid amounts, written into statute that is the state aid amount that will be spent on that category of expenditure. In other words, budget caps give the state absolute certainty over the amount that is forecast to be spent in a particular area. The budget caps force state spending estimates to that level. Most major budget areas were subject to appropriations caps for planning purposes for the 1996-97 biennium. Appropriations caps were eliminated starting with the 2000-01 biennium planning estimates.

For the 1996-97 biennium, appropriations caps meant that the funding for K-12 education was to be provided at a level that would have cut \$220 million from the base budget. Actions by the 1995 Legislature undid the appropriations caps for the 1996-97 biennium.

In 1995, the governor again required appropriations caps for the following biennium as a condition for signing the 1995 Omnibus Education Funding Bill. K-12 education was the only state budget area subject to budget caps for the 1998-99 biennium. The appropriations caps for the 1998-99 biennium would have reduced K-12 funding by about \$300 million below amounts prescribed by the current formula funding levels. As a part of reducing the current funding formulas to the capped level, the caps would have lowered the formula allowance by \$75 per pupil unit for both fiscal years 1998 and 1999. Additionally, the secondary pupil weight would have been reduced by .05 (from 1.30 to 1.25) for fiscal year 1998 and then to 1.20 for fiscal year 1999. Any amounts by which the total base budget for K-12 still exceeded the caps would have been spread among all of the other school funding state aid formulas by prorating the remaining state aid.

Appropriations Accounting.

“90-10 and 85-15” Split. Major education appropriations are written to require 90 percent of the aid entitlement to be paid from the current fiscal year and 10 percent required to be paid from the budget for the subsequent fiscal year. This procedure is referred to as the 90-10 split (prior to fiscal year 1997 the split was “85-15”). The split provides a mechanism for the state to make a final state aid payment to the school district since the school district does not know its actual revenue entitlements until after the fiscal year has been completed.

Each major appropriation consists of an entitlement, which is the total amount of aid for the schools’ fiscal year, an appropriation from the current fiscal year to the previous school year for the 10 percent portion of the previous year’s aid entitlement, and an appropriation for the 90 percent portion of the current fiscal year. The following is a fictitious example of the appropriations over a five-year period.

Table 59
Example of Appropriations Payments

Appropriation	State Fiscal Year				
	1999	2000	2001	2002	2003
(a) Aid Entitlement	\$2,000	\$2,000	\$2,500	\$3,000	\$3,500
(b) 10% share still owed for previous FY	0	200	200	250	300
(c) 90% share of entitlement paid during the current FY	1,800	1,800	2,250	2,700	3,150
Appropriation for the current FY (b) + (c)	1,800	2,000	2,450	2,950	3,450

As the example shows, the 90-10 split defers a portion of any state aid entitlement increase into the next fiscal year.

Metered Payments. State aid payments are metered to school districts on the basis of a statutory schedule. School districts receive bi-monthly state aid payments from the Department of Children, Families and Learning and payments of local receipts (property tax receipts and abatement payments) from the county treasurer. The metering schedule is an accounting tool designed to help the state avoid short-term borrowing by providing school districts' state aid payments on a schedule that is supposed to reflect the average school district's cash flow needs. The same cumulative percentage is used for each district regardless of that district's particular cash flow needs. Each school district is guaranteed the cumulative percentage of its revenue.

(Minn. Stat. § 127A.45)

School districts receive state aid payments and property tax payments on the following basis (school district fiscal years are the same as state fiscal years and run from July 1 to June 30):

Table 60
Metered Payments for Fiscal Year 2002

Payment Date	Cumulative Percent of Revenue Guaranteed to District and Property Tax Receipts
July 15	4.6%
July 30	6.9%
August 15	The greater of 15.2% or the final adjustment for the prior year state paid property tax aids
August 30	17.4%
September 15	19.6%
September 30	21.8%
October 15	The greater of 24% or half of the final adjustment for prior fiscal year aid entitlements
October 30	(a) The greater of 27.3% or half of the final adjustment for prior fiscal year aid entitlements (b) District receives second half of property tax receipts from county treasurer
November 15	(a) 33.3% (b) District receives agricultural property tax receipts from county treasurer
November 30	39.3%
December 15	42.3%
December 30	45.3%
January 15	49.5%
January 30	53.8%
February 15	58.3%
February 29	(a) 62.8% (b) District receives personal property tax receipts from county treasurer
March 15	67.6%
March 30	72.3%
April 15	75.3%
April 30	81.3%
May 15	84.3%
May 30	(a) 92.3% (b) Districts receive first half of property tax receipts; 25% of this amount is for the following fiscal year; 75% is for the current fiscal year
June 20	100.0%