

## Executive Summary

Compensatory revenue is the state's primary formula designed to provide additional funding to school districts serving students from lower-income families. Minnesota's compensatory formula is based on the previous year's count of free and reduced-price meal eligible students, which serves as a proxy for the number of students in need of additional educational assistance. The Office of Legislative Auditor released an excellent report in 2020 describing Minnesota's [Compensatory Education Revenue program](#).

This document summarizes the major changes to the compensatory revenue formula over the last 50 years, shows changes in compensatory revenue over time, and describes the changes over time in the number of students identified as eligible for free or reduced-price meals.

## Compensatory Revenue Formula History

Compensatory revenue is designed to provide additional funding to schools that serve academically disadvantaged students. Minnesota's school finance formulas have had a compensatory revenue component since 1969.

When first enacted, this funding was simply \$30 per pupil in any school district where more than 20 percent of the students were from families qualifying for assistance through the AFDC (Aid for Families with Dependent Children). With the enactment of the "Minnesota Miracle" in 1971, AFDC revenue was scaled up and was provided to school districts as part of the Foundation Revenue Program (precursor to General Education Revenue) through an added 0.5 pupils added to the overall pupil count. This overall count of students was called Total Pupil Units. The AFDC count was done by the county, and a district-by-district count was provided by the Department of Human Services to MDE. The count was not site-based.

Student movement programs such as open enrollment, enacted by the legislature in 1987, and charter schools, first enacted in 1991 substantially increased student movement among schools and prompted discussions of whether a better measure of Socio-Economic Status might exist. The legislature investigated options including using census data, free lunch eligibility, and checking with the Department of Revenue to see if redacted family income tax data could be provided to MDE—although at that point in time, the Department of Revenue concluded that the federal government prohibited the sharing of income tax information with MDE.

In the mid-1990s, the federal government replaced AFDC funding with the TANF (Temporary Assistance for Needy Families) program forcing the state to change its proxy measure. The Legislature switched compensatory funding from a districtwide count of the number of families eligible for AFDC to the site-based count of students eligible for free or reduced-price meals.

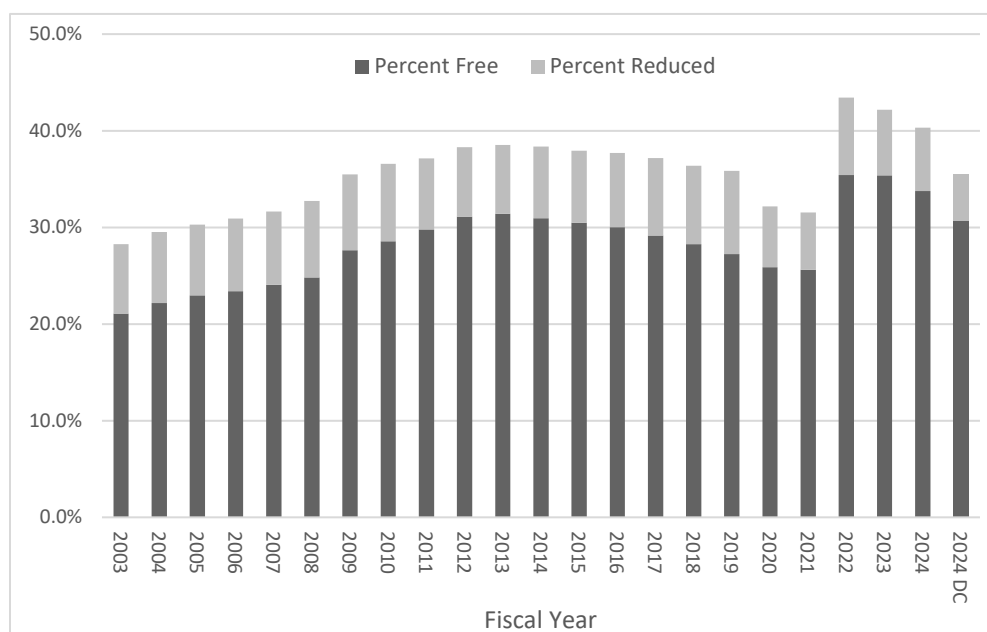
The free and reduced-price meals count and the compensatory concentration formula have remained relatively unchanged over the last 30 years.

Prior to the fall of the 2024 student count, the count included students whose eligibility was determined through both direct certification for eligibility, accomplished by administratively matching families' participation in certain public assistance programs with student data and through the collection from parents of individual applications for educational benefits (a form where the student's family could fill out a paper or online form attesting to the family income level).

## Compensatory Revenue Over Time

The following tables show the change in eligible compensatory pupils and the change in compensatory revenue over time.

**Table 1**  
**Minnesota Public School Students Eligible**  
**for Compensatory Revenue over Time**  
**Percent of Eligible Students from the Fall of 2003 to the Fall of 2024**

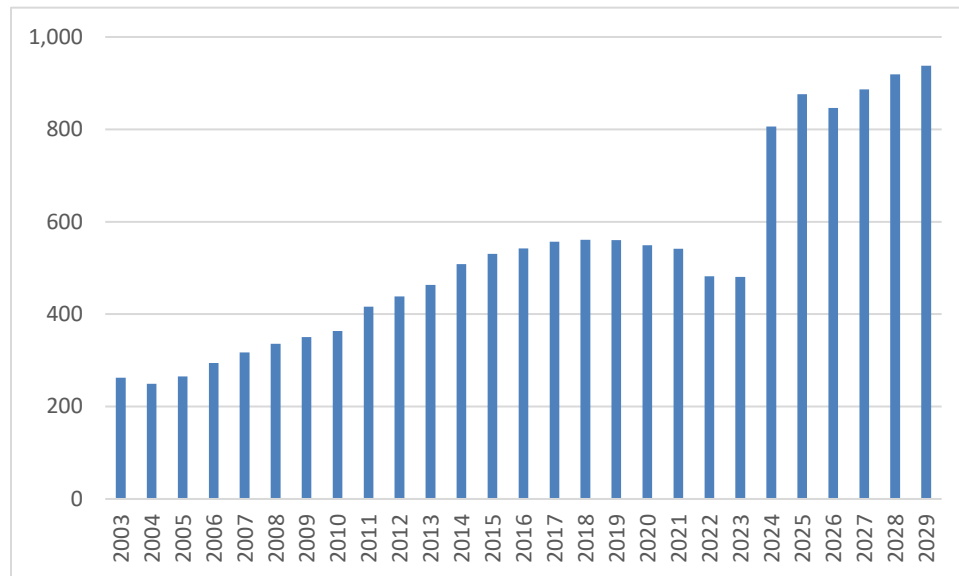


The percent of students eligible for free or reduced-price meals increased during the first 15 years of the century, then started declining at a relatively modest pace. The compensatory count of students dropped significantly for the fall of 2020 and 2021 (these were years where the COVID pandemic responses disrupted school attendance and years where the federal government provided free meals for all students regardless of family income). Direct certification was expanded during the fall of 2022 to include Medical Assistance eligibility data which increased the number of eligible students substantially. Note that for Medical Assistance, the families still need to meet the federal free meal program's income eligibility levels. The last column of the chart shows the fall 2024 based on direct certification counts only. Absent

legislation, this is the count that will be used to calculate compensatory revenue for fiscal year 2026 and later.

Table 2 shows compensatory revenue over time. Actual amounts are shown for fiscal years 2003 through 2025, and estimated amounts from the February 2025 Forecast are shown for fiscal years 2026 through 2029.

**Table 2**  
**Compensatory Revenue over Time**  
**Fiscal Years 2003 to 2029 (in \$ millions)**



As table 2 shows, compensatory revenue increased from 2003 to 2018, decreased substantially during the COVID years of 2022 and 2023, and increased dramatically in fiscal year 2024 because Medical Assistance was added to the direct certification process beginning in the fall of 2022 (first used in fiscal year 2024 revenue calculations).

## Counting Compensatory Revenue Students

Compensatory revenue is based on the fall count of students called the enrollment count. This count includes enrollment of all students and demographic information such as a student's race or ethnicity, the student's English language status, the student's special education status, and the student's eligibility for free or reduced-price meals under the national school lunch program.

A pupil is counted as a compensatory pupil if the pupil is eligible under the federal school lunch program for free or reduced-price meals. Eligibility for free meals is limited to 130 percent of the federal poverty guidelines and eligibility for reduced-price meals is limited to between 130 and 185 percent of the federal poverty guidelines. For the 2024-2025 school year, these percentages limit yearly income for a family of four to not more than \$40,560 for free meal eligible students and \$57,720 reduced-meal eligible students.

The compensatory pupil count is conducted during the fall of the previous year at each school site. Most students are identified as free or reduced-price meal eligible through a “direct match” with income information held by the state for participants in certain public assistance programs (such as SNAP) and starting for the fall of 2022 Medical Assistance. Some students are also identified by the family completing the application for educational benefits. Students who are enrolled on October 1 are included in each site’s count. Schools have until December 15 to determine meal eligibility of these students for purposes of calculating compensatory revenue. Prior to the fall 2024 student count, the compensatory student count was based on both direct certification and applications for educational benefits, but under current law, for fiscal year 2026 and later, the count is based only on the direct certification count.

## Compensatory Revenue Formula

Compensatory revenue is site-based and determined through a concentration formula.

**Site-Based** – Compensatory revenue is site-based revenue. The revenue is calculated based on the characteristics of each school site, and the revenue is designated to be spent on qualifying programs at each site. A school board may adopt a resolution to reallocate up to 20 percent of the site revenue for eligible uses across the district.

**Revenue Calculation** – The formula that generates compensatory revenue is a concentration formula based on each school building’s count of students who are 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.

**Eligible Uses of Compensatory Revenue** – 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. Minnesota Statutes lists the eligible uses of compensatory revenue.



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