



**OFFICE OF THE LEGISLATIVE AUDITOR**

STATE OF MINNESOTA • James Nobles, Legislative Auditor

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Members of the Legislative Audit Commission:

Compensatory education revenue is one component of state funding for public schools. Specifically, the revenue is intended to help pay the educational costs of students who are underprepared to learn and who perform below academic standards for their age group.

We found that schools use compensatory revenue for a broad range of programs, but the statewide impacts of the revenue are unknown. Statutes requiring school districts to determine whether compensatory education revenue raised student achievement are unrealistic. We present alternatives to improve oversight of, and requirements related to, the revenue.

Our evaluation was conducted by Jody Hauer (project manager), Don Hirasuna, and Ryan Moltz. The Minnesota Department of Education cooperated fully with our evaluation, and we thank them for their assistance.

Sincerely,

Handwritten signature of James Nobles in black ink.

James Nobles  
Legislative Auditor

Handwritten signature of Judy Randall in black ink.

Judy Randall  
Deputy Legislative Auditor

# Summary

## Compensatory Education Revenue

### Key Facts and Findings:

- Compensatory education revenue is state funding to help schools pay for the educational needs of students who do not meet performance standards appropriate for their age. In Fiscal Year 2018, it totaled \$551 million. (p. 3)
- Revenue amounts depend largely on the (1) number of students qualifying for free or reduced-price lunch and (2) concentrations of these students at a school site. School districts distribute the revenue to school sites where students generate it but can reallocate up to half based on a school board plan; a few can reallocate all of the revenue. (pp. 8, 11-12)
- In 89 percent of school districts outside the seven-county metropolitan area in Fiscal Year 2018, students generating the revenue made up at least one-quarter of enrollment; this compares with just 48 percent of metropolitan districts. (p. 7)
- Statutes require school districts to determine whether compensatory revenue increased student achievement, but the requirement is unrealistic. (p. 48)
- The 12 statutorily allowed uses of compensatory education revenue permit spending on a wide range of educational purposes. Minnesota Department of Education (MDE) data offer little detail on how school districts spend the revenue, but MDE adopted changes in late 2019 intended to make the spending more transparent. (pp. 32, 33, 35)
- Calculations of compensatory revenue do not reflect districts' current student counts. Further, determining student eligibility for free or reduced-price lunch requires school

districts to collect income forms from families, but not all families submit the forms. This results in an undercount of students who generate compensatory revenue. (pp. 23-24)

- A 2017 law requires school districts to reserve a percentage of compensatory education revenue for exclusive use on extended-time programs, such as summer school, but this is not the best use of the revenue for all districts. (p. 37)

### Key Recommendations:

- The Legislature should repeal the statute requiring school districts to report on whether compensatory revenue raised student achievement. (p. 48)
- The Legislature should require school districts to report whether programs paid with significant amounts of compensatory revenue are consistent with best practices, and MDE should identify future best practices. (p. 63)
- The Legislature should consider changing the calculation of compensatory revenue to lessen the downsides of using prior-year counts of qualifying students. MDE should evaluate additional methods for obtaining counts of these students. (pp. 30, 26)
- The Legislature should repeal the statute requiring school districts to reserve a share of compensatory education revenue solely for extended-time programs. (p. 39)
- The Legislature should clarify the requirement for a school board-adopted plan when school districts reallocate compensatory revenue. (p. 41)

**School districts may use compensatory education revenue for a broad range of programs, the effects of which are unclear.**

## Report Summary

Compensatory education revenue is state funding intended to help meet the educational needs of certain students—those who are underprepared to learn and whose progress in meeting academic performance standards is below levels appropriate for their age group. School districts, charter schools, and other educational organizations receive the revenue.

Compensatory education revenue amounted to \$551 million statewide in Fiscal Year 2018, a 69 percent increase since Fiscal Year 2004 (adjusted for inflation in 2018 dollars). It represented about 7 percent of general education revenue—which provides most of the money for school operating expenses—in Fiscal Year 2018.

The statutory formula for calculating compensatory education revenue depends heavily on two factors. One is the number of low-income students, as measured by whether students qualify for the free or reduced-price lunch program. The second is the concentration of such students at a given school site. School districts generally are to allocate the revenue to the school sites where qualifying students attend.

More than 329,000 students in Fiscal Year 2018 generated compensatory revenue. Qualifying students made up about 38 percent of all students that year.

In a large share of school districts (89 percent) outside the seven-county metropolitan area, qualifying students made up at least one-quarter of enrollment in Fiscal Year 2018. This compares with just 48 percent of metropolitan districts.

Our analysis showed that student eligibility for subsidized lunch is an acceptable but limited proxy for identifying those intended to benefit from compensatory revenue: students performing below standards appropriate for their age.

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### **Available data provide little detail on how school districts spend compensatory education revenue.**

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Statutes permit 12 broad uses of compensatory education revenue. The 12 uses allow spending on a wide range of

educational purposes. They include providing additional teachers to lower ratios of instructors-to-learners, as well as instructional materials and technology for meeting learners' needs.

Little is known, however, on how district spending corresponds with each of the allowed uses. The Minnesota Department of Education (MDE) collects expenditure data from school districts but has detailed data on just 3 of the 12 uses: English learner programs, Assurance of Mastery programs, and a reserved amount for extended-time programs (that is, after-school classes and summer school). For 80 percent of compensatory revenue, data are not available on how school district spending aligns with allowed uses.

In December 2019, MDE adopted changes for future school district reporting on expenditures of compensatory education revenue. The changes include new reporting codes, such as for remedial instruction in reading, which provide a level of detail that was lacking previously. We agree with the need to increase transparency of spending.

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### **A requirement for school districts to report annually whether compensatory revenue expenditures raised student achievement is unrealistic.**

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Statutes require school districts to report annually whether their spending of compensatory revenue increased student achievement. In a survey we conducted for this evaluation, more than one-third of school districts reported that they either did not measure the revenue's impact or did not know whether they did. Of district officials saying they did report on the revenue's impact, most did so by using standardized test results, such as scores from the Minnesota Comprehensive Assessments, which are required statewide tests in math, reading, and science.

One problem with estimating impacts of the revenue is that school districts' indicators of academic success, such as test results, do not isolate the impacts of compensatory education revenue itself. School districts use multiple funding streams, not just compensatory revenue, for their programming, making it difficult to

**Students qualifying for free or reduced-price lunch generate compensatory education revenue; in Fiscal Year 2018, they represented 38 percent of all students.**

determine whether results are tied to compensatory revenue alone.

A second problem is that valid and reliable studies of the revenue's impact would require time, money, and analytical skills that few school districts may be able to offer. School districts would have to use rigorous research methods that could be difficult to conduct, such as setting up control groups to compare students who did and did not participate in programs funded by compensatory revenue. They would also have to account for all other school programs that might have an impact on students who are behind academically. Such research would be unreasonable to expect at the individual school district level.

The Legislature should repeal the requirement that school districts annually report on whether compensatory education revenue increased student achievement.

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**Research has identified best practices for effective educational programs, but the extent to which Minnesota schools use the practices is mixed.**

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Because of the difficulties of measuring the effects of compensatory education revenue, we looked at whether school districts and charter schools use the revenue on programming that is consistent with research-based best practices. Academic studies have identified tutoring, full-day kindergarten, English learner programs, and extended-time programs—when they are structured appropriately—as effective in helping student achievement.

As an example, research indicates that summer school can be effective for struggling students, but only when students attend regularly. Best practices include efforts to monitor and encourage maximum attendance, such as involving parents, which generally increases the likelihood that students attend and complete the program.

Another best practice is to align summer instruction to meet students' needs. For high school students, this means focusing on courses they have failed. According to our survey, 55 percent of Minnesota school districts and charter schools reported offering summer academic programs for secondary students. Of those, 89 percent

said that, for “all” or “most” enrolled students, the summer programs focused on classes that students had failed.

The Legislature should require school districts to report whether programs paid with significant amounts of compensatory revenue are consistent with best practices grounded in reliable research. MDE should compile information for school districts on best practices for students who are academically behind. MDE should also implement a process for identifying future best practices.

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**Using family income to determine amounts of compensatory education revenue provides inaccurate and untimely assessments of need.**

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School districts commonly obtain counts of students eligible for free or reduced-price lunch by requesting students' families to submit income forms. In our survey, 70 percent of school districts reported challenges with the forms.

One challenge is that not all families who should complete the forms actually do. This results in an undercount of qualifying students, which, in turn, lowers a district's compensatory revenue. School district officials said that the undercount is worse in secondary grades than elementary ones.

A second challenge is that school districts spend a great deal of time and resources to obtain completed forms. For instance, the superintendent from one school district said school principals and staff from the district's Nutrition Services Department make personal phone calls to families that have not completed the form.

MDE should evaluate additional methods for obtaining counts of students from low-income families. One possibility is to reduce how often school districts must collect income forms from families for the purpose of compensatory revenue. For instance, they could rely on the same data for five years instead of collecting forms annually. Additional steps would be needed for families moving into or out of a district. MDE would have to adjust the estimates to account for students who reside in one district but attend school elsewhere.

**Aligning programs with best practices could increase accountability for compensatory education revenue.**

**Calculations of compensatory education revenue do not reflect a school district's current student population.**

Another possibility is to use families' income forms signed on behalf of their elementary school children to permit eligibility to those students once they reach the secondary level. Students who had not been enrolled in a district's elementary grades would need a different option.

Because the formula for compensatory education revenue uses counts of students from October 1 of the previous year, schools that experience an increase in low-income students could face a funding gap. Further, the October 1 counts do not account for students who enroll after that date. Schools must educate students as they arrive, even when student counts produce less compensatory revenue than schools need.

The Legislature should consider changes to calculating compensatory revenue to mitigate downsides of using prior-year counts of students. As an example, it could change the formula for schools experiencing an influx of students by adding a supplementary student count for the current year. Supplementary revenue could go to schools based on updated student counts.

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**Reserving compensatory revenue for extended-time programs is not the best use of the revenue for all districts.**

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A 2017 law required school districts, starting in the 2017-2018 school year, to reserve a portion of their compensatory education revenue for extended-time

programs, such as summer school. The amount reserved started at 1.7 percent of compensatory revenue and increases yearly.

Some school district officials said the reserved funding required them to add a new program that was problematic for their students who could not participate after school or during the summer. Others said the amount reserved was too small to cover a new program, forcing them to use other funds to help pay for extended-time programming. In our survey, only 11 percent of school districts "agreed" or "strongly agreed" that reserving the money for this single purpose was the best use of funding for their district.

The Legislature should repeal the statute requiring all school districts to dedicate a portion of compensatory education revenue to extended-time activities. This would allow school districts to decide programs to fund according to their students' needs.

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**Whether school boards must adopt a specific plan for reallocating compensatory revenue is not clear.**

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Statutes allow most school districts to reallocate up to half of their compensatory education revenue based on a plan adopted by the school board. Statutes do not specify whether the plan must detail distributions of the revenue or whether board approval of overall district budgets suffice. The Legislature should clarify the requirement.

## Summary of Agency Response

*In a letter dated February 28, 2020, Minnesota Department of Education (MDE) Commissioner Mary Cathryn Ricker said that MDE's recently approved changes to reporting requirements on school district expenditures of compensatory revenue will make spending data more transparent and useful. She added that the department agrees with OLA's recommendation to monitor implementation of the reporting requirements and will convene a working group to assess results and make recommendations for any further changes. Regarding the recommendation that MDE identify future best practices for educational programs paid with compensatory revenue, Ricker wrote that MDE agrees; the department has been identifying "evidence-based best practices impacting student achievement" and is developing a repository of such practices for use by Minnesota school districts. In response to the recommendation that MDE evaluate methods of improving counts of students from low-income families, Ricker said MDE generally agrees but also wants to ensure that schools receive timely revenue information to permit stability in their planning and budgeting.*

The full evaluation report, *Compensatory Education Revenue*, is available at 651-296-4708 or:  
[www.auditor.leg.state.mn.us/ped/2020/compensatory.htm](http://www.auditor.leg.state.mn.us/ped/2020/compensatory.htm)