

# K12 Finance Overview

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Presentation to K12 Finance Committee

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# Outline of School Finance Presentation

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Introduction of Nonpartisan Staff and Overview of Roles

Principles of a School Finance System

Context for School Funding in Minnesota

State Budget Overview

Counting Pupils

Major Components of Minnesota's School Finance System

Student Movement Programs

# Introduction of House Research K12 Staff

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The House Research and House Fiscal Analysis Departments provide nonpartisan services (bill drafting, fiscal, research, etc.) to all House members on a confidential basis. Tim, Cristina, and Emily also help staff the K12 committees and provide information to the K12 committees as requested.

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# House K12 Informational Resources

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The House Research Department and the House Fiscal Analysis Department have many K12 resources on their websites:

House Research Department

<https://www.house.leg.state.mn.us/hrd/hrd.aspx>

House Fiscal Analysis Department

<https://www.house.leg.state.mn.us/fiscal/fahome.asp>

School Finance Guidebooks

<https://www.house.leg.state.mn.us/hrd/pubs/mnschfin.pdf>

<https://www.house.leg.state.mn.us/Fiscal/Download/2187>

# Services HRD provides to the K12 Committee

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- Bill Summaries
- Amendments
- Program Overviews
- Fiscal Tracking Spreadsheets
- District-by-District Printouts and Examples of School Funding Programs

# K12 Education Funding: Goals and Principles

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School finance systems are often evaluated on the following characteristics. Is the school funding system:

- Adequate?
- Equitable?
- Efficient?
- Effective?
- Stable?
- Transparent?

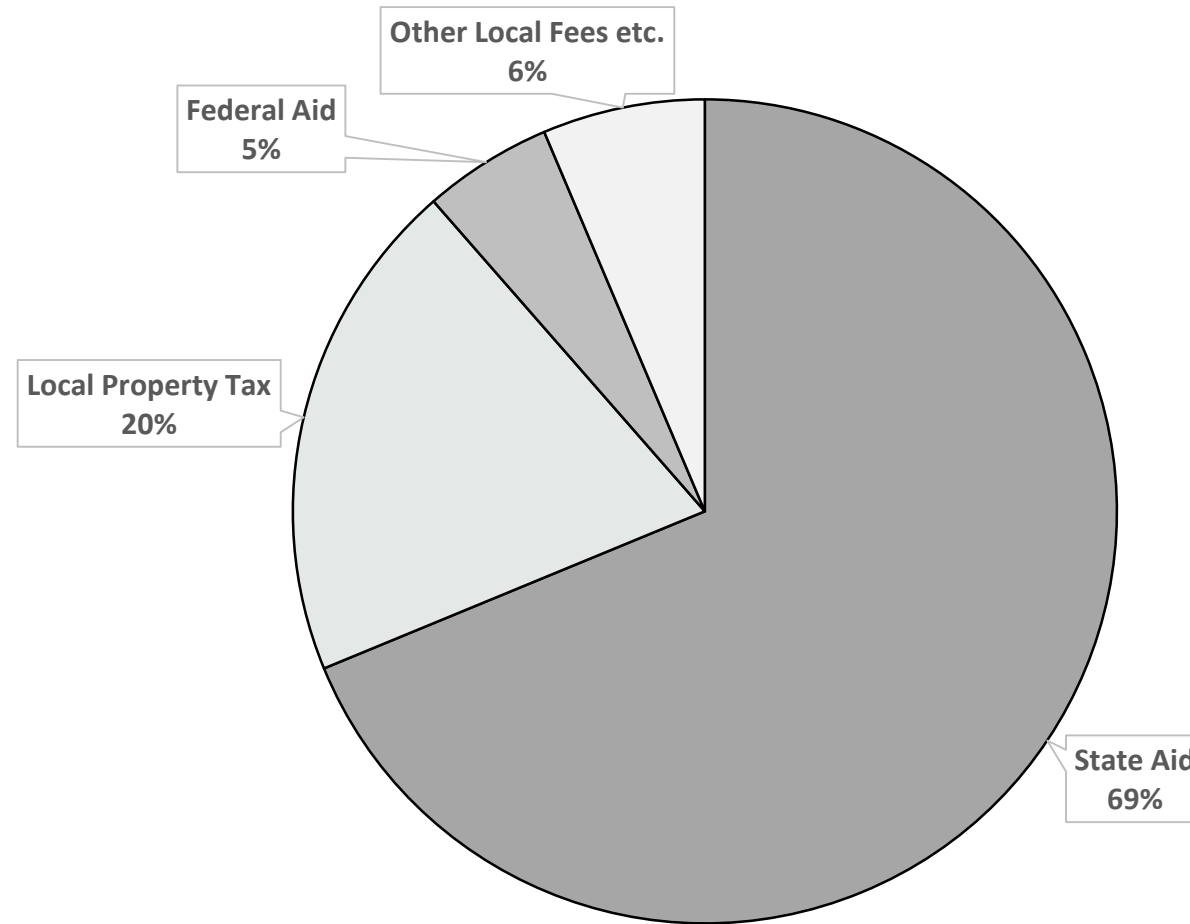
# Minnesota's School Finance System

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Minnesota's school funding system is created by the Minnesota legislature and consists of many formulas that combine:

- State aid
- Local property taxes
- Federal funds
- Fees and other local source revenue

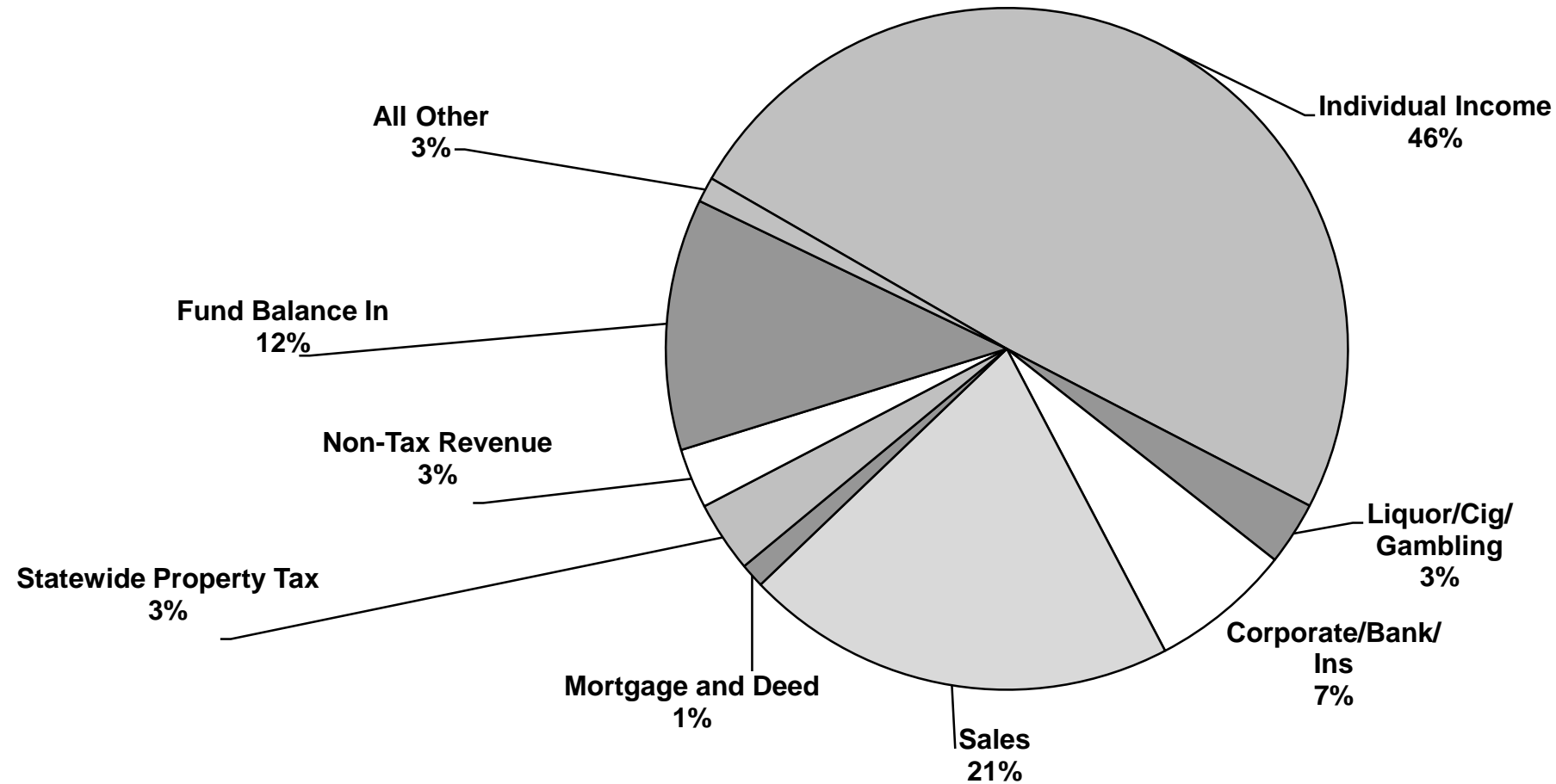
# Estimated School Revenue By Source 2020-21 School Year \$15.221 Billion





# State Aid Comes from the State General Fund

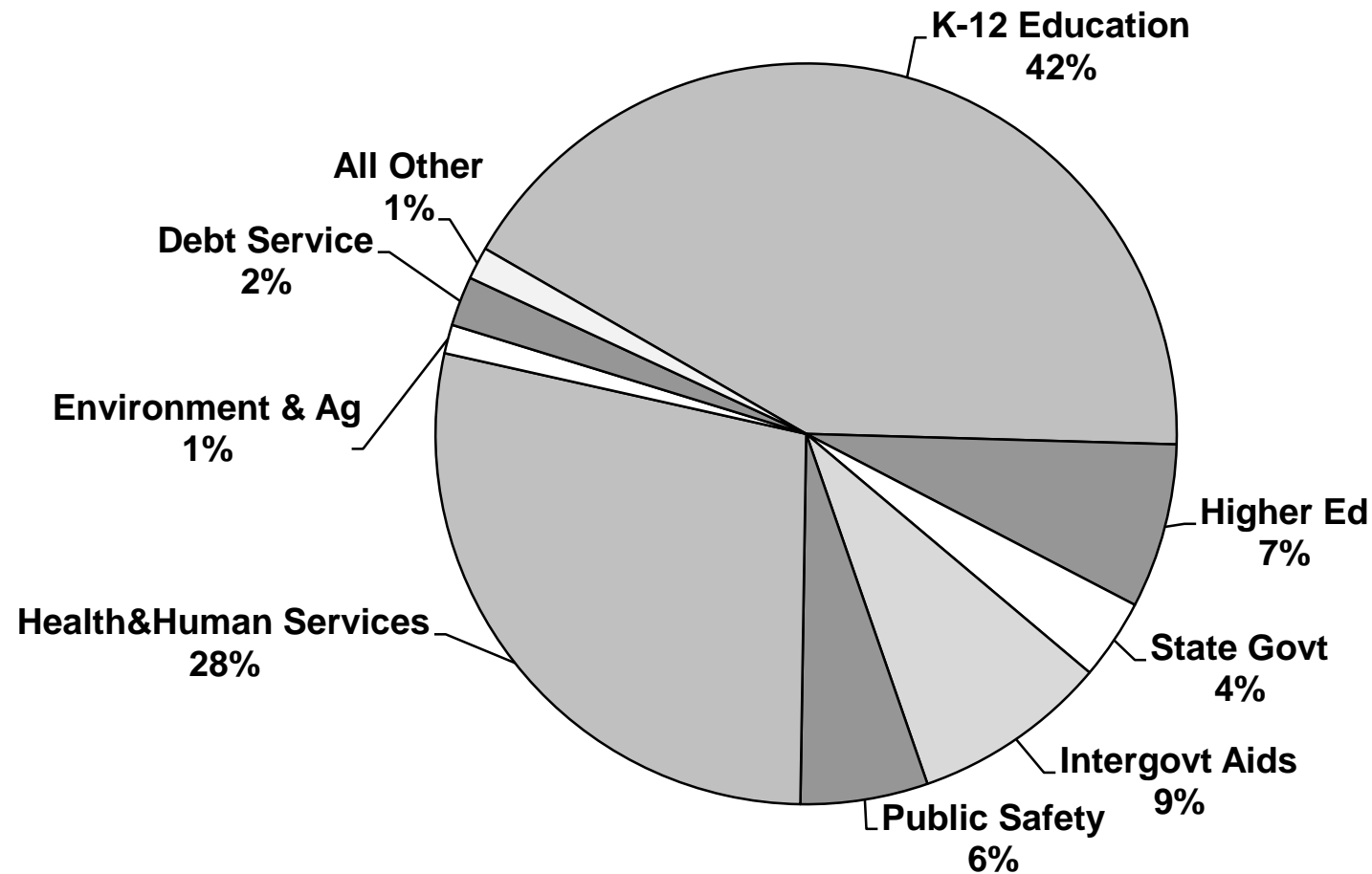
## FY 21 \$27.293 billion (includes Fund Balance)



# Schools are the Largest Recipient of State Aid

## FY 21 General Fund Spending \$23.849 billion

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# State Aid for Schools

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- State aid for schools is 42% of the state's general fund budget—meaning 42% of all the income tax, sales tax, and other general fund tax sources go to preK-12 education.
- State aid is the biggest share of school district's budgets. The average district receives 69% of its total revenue from state aid.
- There are more than 50 different state aid formulas. General education and special education aid are about 90% of total school district aid.
- The statewide aid tracking worksheet shows each category of state aid for each fiscal year.

# Schools Rely on Property Taxes as Well as State Aid

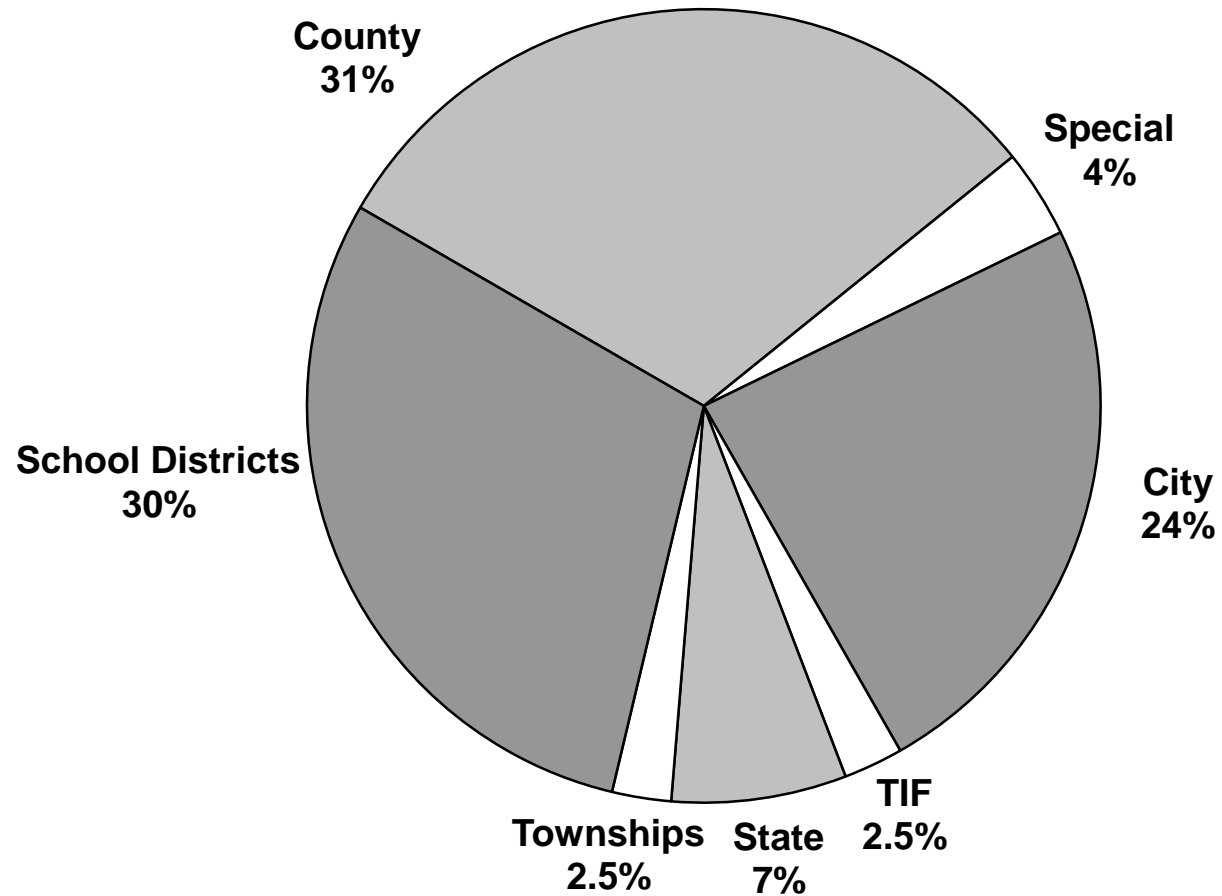
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- School districts receive nearly 30% of all the property taxes raised in the state (\$11.162 billion for taxes payable in 2020).
- Property taxes make up the second largest share of school districts' budgets. The average school district receives 20% of its total revenue from the local property tax.

# Property Taxes in Minnesota by Jurisdiction

## Taxes Payable in 2020 \$11.162 Billion

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# Minnesota's School Levy Description

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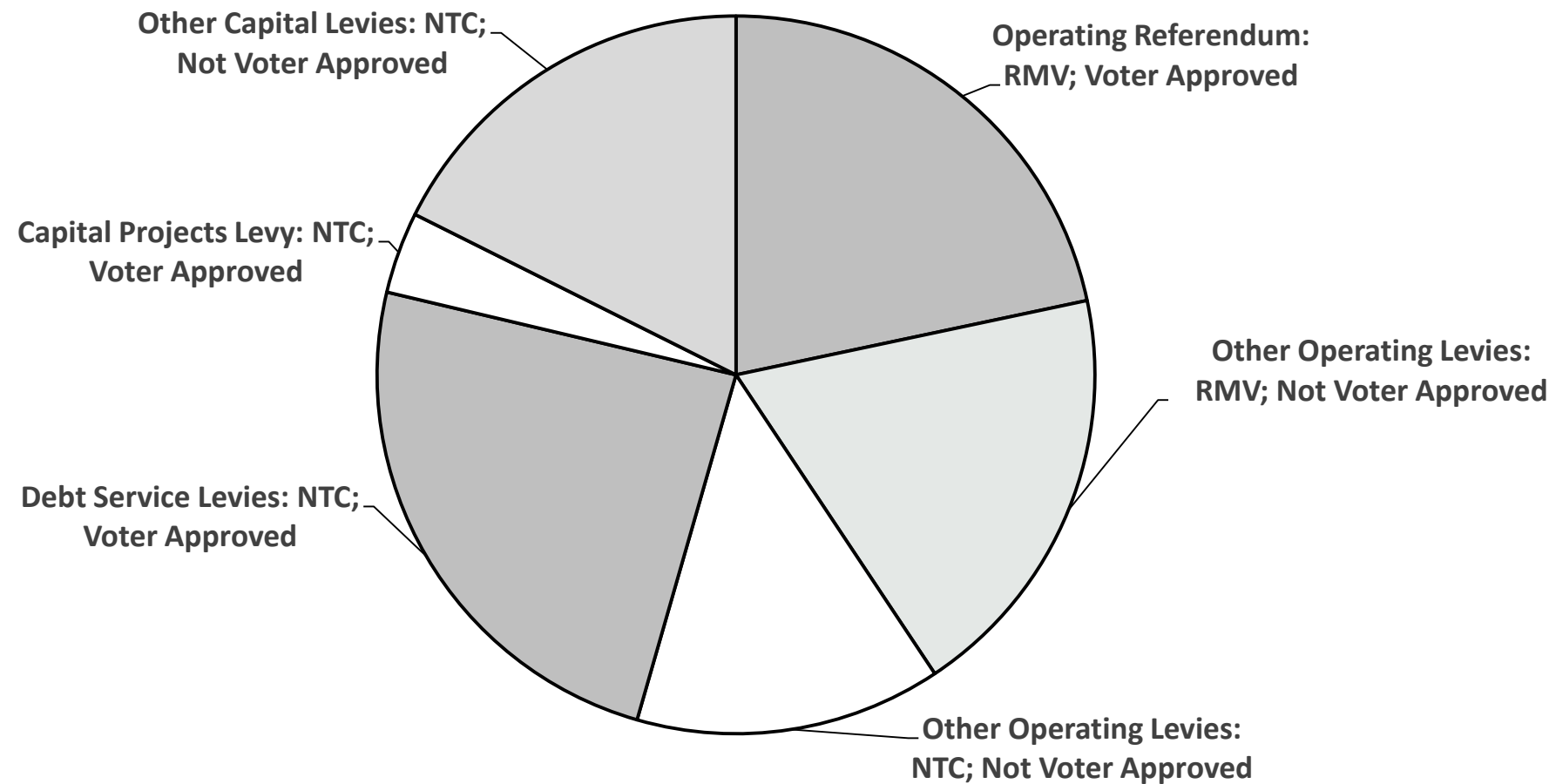
- There are approximately 30 different formulas for calculating Minnesota school district's levies.
- Many levies are set as an amount per pupil while a few levies are based on a percentage of a district's spending in a particular budget area.
- Most school levies are at the discretion of the school board—not to exceed the formula maximums.
- A few school levies (operating referendum, bond sale, capital projects) require voter approval.

# School District Levies

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- The statewide levy tracking sheet shows all of the school district levies and levy adjustments for each school year.
- The levy summary page shows each school levy for taxes payable in 2020, whether the levy is equalized, which tax base the levy falls on, and whether the use of the levy is subject to a referendum (voter approval).

# Pay 20 School Levies: \$3.305 Billion; by Type, Tax Base (Referendum Market Value or Net Tax Capacity) and Voter Approval Status





# Federal Funds

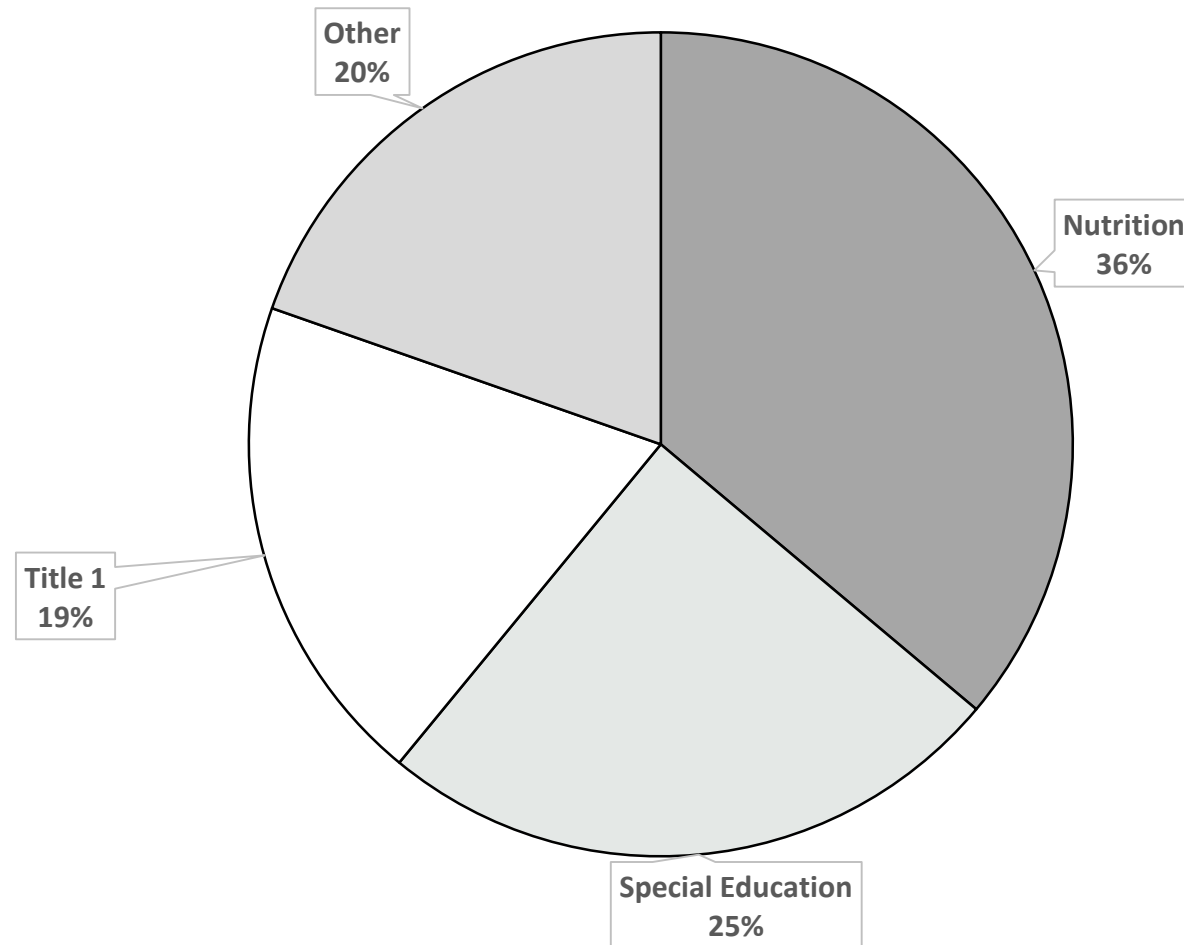
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Minnesota's schools receive a limited amount of federal funds.

- For FY 21, about 5% of total school district revenue is expected to be from federal funds (not including COVID-19 related funding).
- The federal funds are primarily for Title I services, special education services, and food and nutrition programs.

# Federal Funds for Minnesota's Schools

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# Other Local Funds

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Minnesota's schools receive some money from other local sources. Other local revenue includes:

- Transfers among school districts
- Fees for student activities
- Sales such as the school meals fees for families that don't qualify for free or reduced-price meals and a la carte items
- Certain local source revenue such as taconite funds and county apportionment

# State General Fund Budget

## November 2020 Forecast (\$ in millions)

	FY 2020/21	FY 2022/23
Beginning Balance	3,971	3,444
Revenue	47,100	49,494
Spending	47,627	51,110
Gap Between Revenue and Spending	527	1,616
Balance Forward Before Reserves	3,444	1,828
Cash Flow Account	350	350
Budget Reserve	2,377	1,886
Stadium Reserve	81	230
Forecast Budgetary Balance	636	-638

# Minnesota's School Finance Formulas

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Minnesota's school finance formulas consist of state aid programs, local levy programs, and programs that mix the two revenue sources, called equalized levies. Formulas generally fall into one of three general categories:

- Formulas distributing a certain amount of money per pupil (general education)
- Cost reimbursement formulas (special education)
- Voter-approved revenue (operating referenda, debt service for school building bonds, and capital projects referenda)

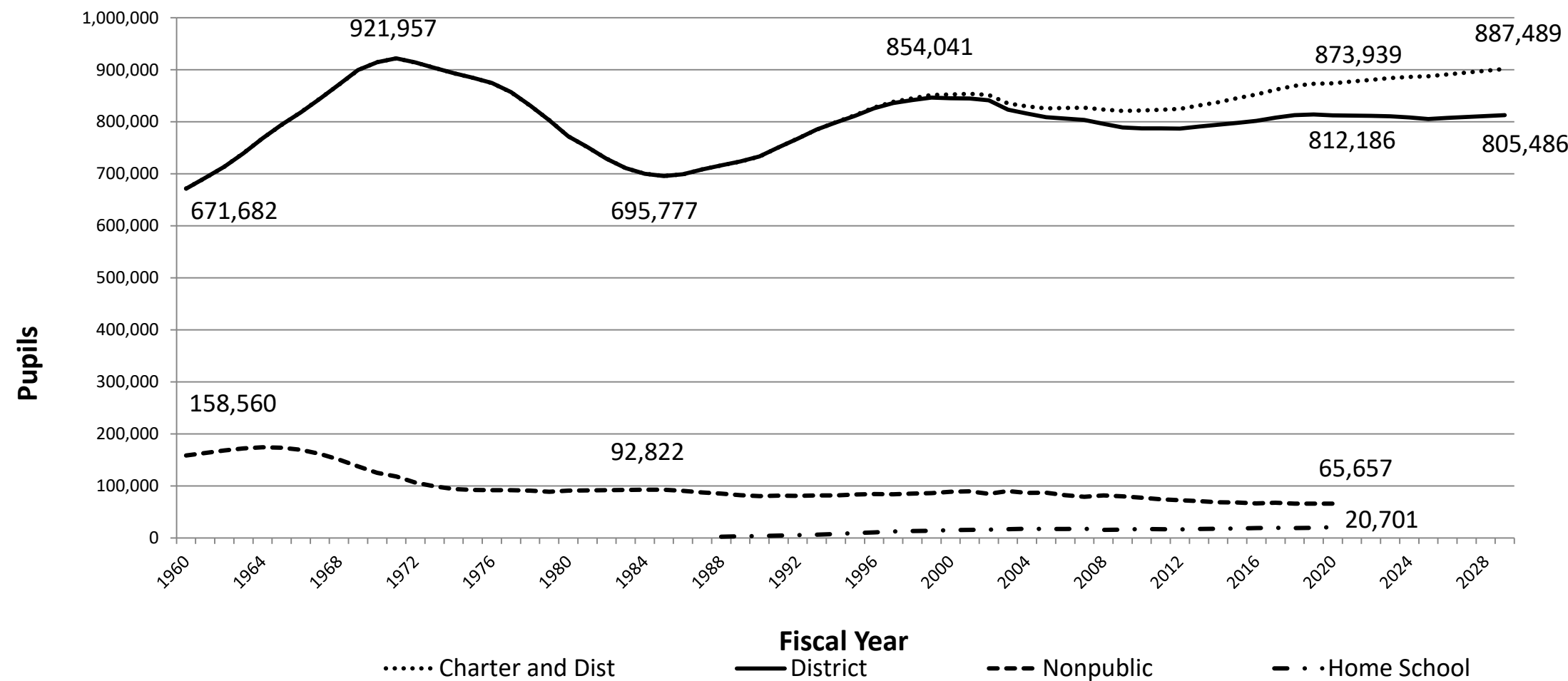
# Counting Students (Pupils) for use in Minnesota's School Finance Formulas

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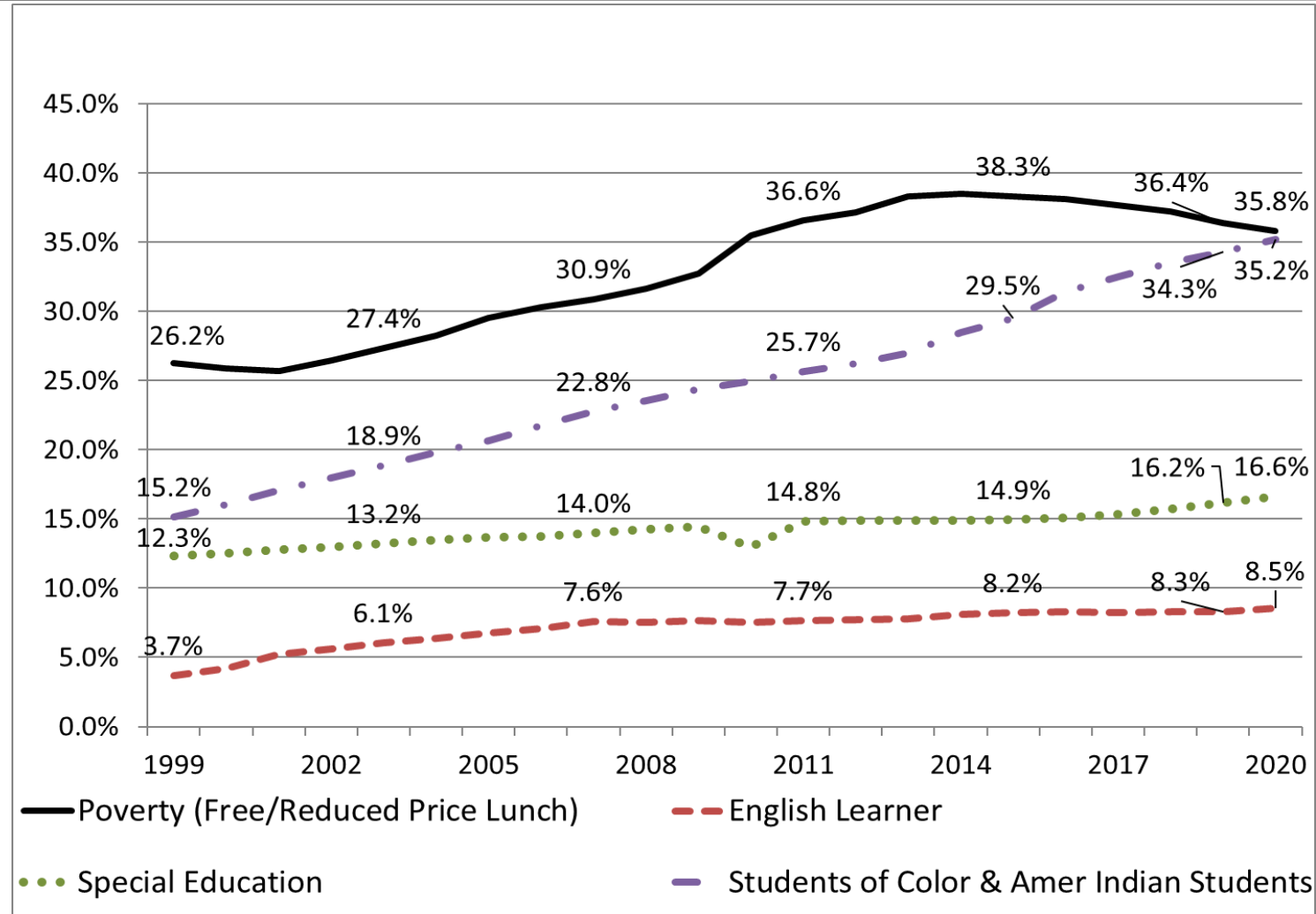
Minnesota's school districts and charter schools receive general funding based on the number of students served by the school.

- Minnesota starts with a measure of students called “average daily membership.” This is similar to an FTE count of students who are enrolled at the school.
- Students are weighted by grade level:
  - Grades K – 6 are weighted at 1.0
  - Grades 7 – 12 are weighted at 1.2

# Minnesota School Enrollment 1960 to Forecasted 2025



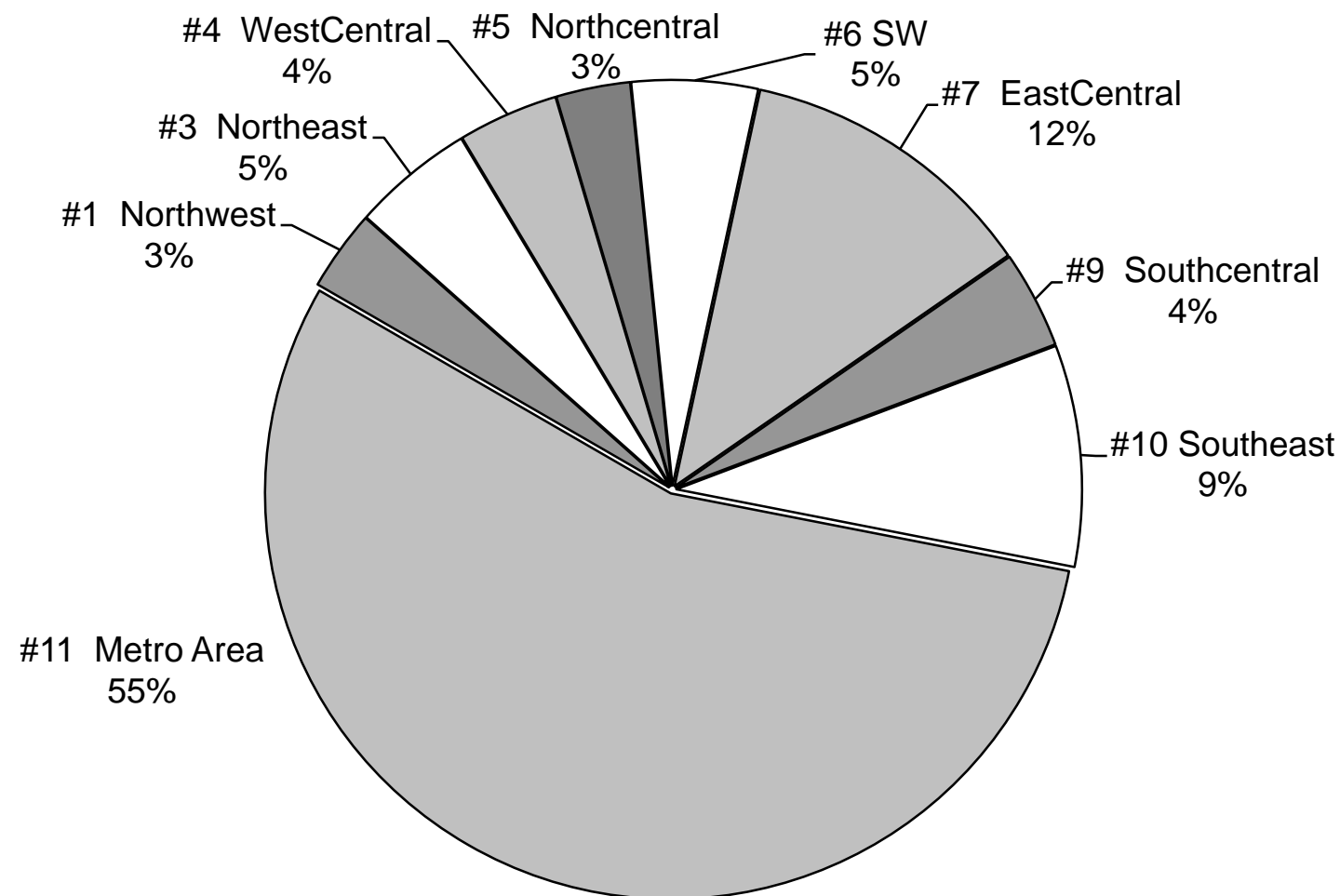
# School Demographic Changes 1999 to 2019



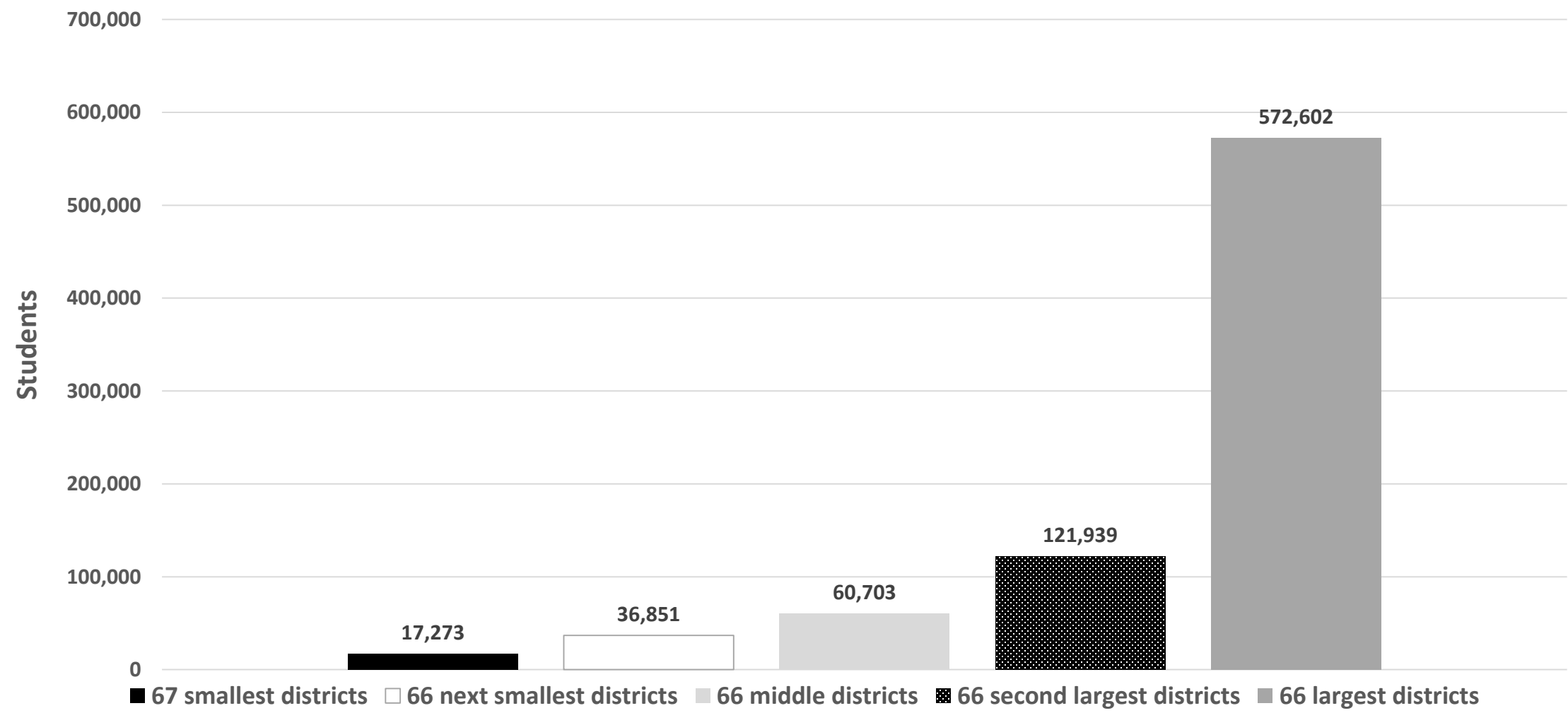


# FY 20 Enrollment by Region

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# Enrollment by Size; Quintiles FY 20



# General Education Revenue

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General Education Revenue is the major source of undesignated money that a school board may use to provide educational services.

- The school finance guides explain how to calculate each component of general education revenue and show examples of revenue under each of the components.
- General education revenue is often shown on a district-by-district printout commonly called a “run.” Districts are often shown in numeric order as this generally puts districts in the same county next to each other. Runs can be sorted in any order.

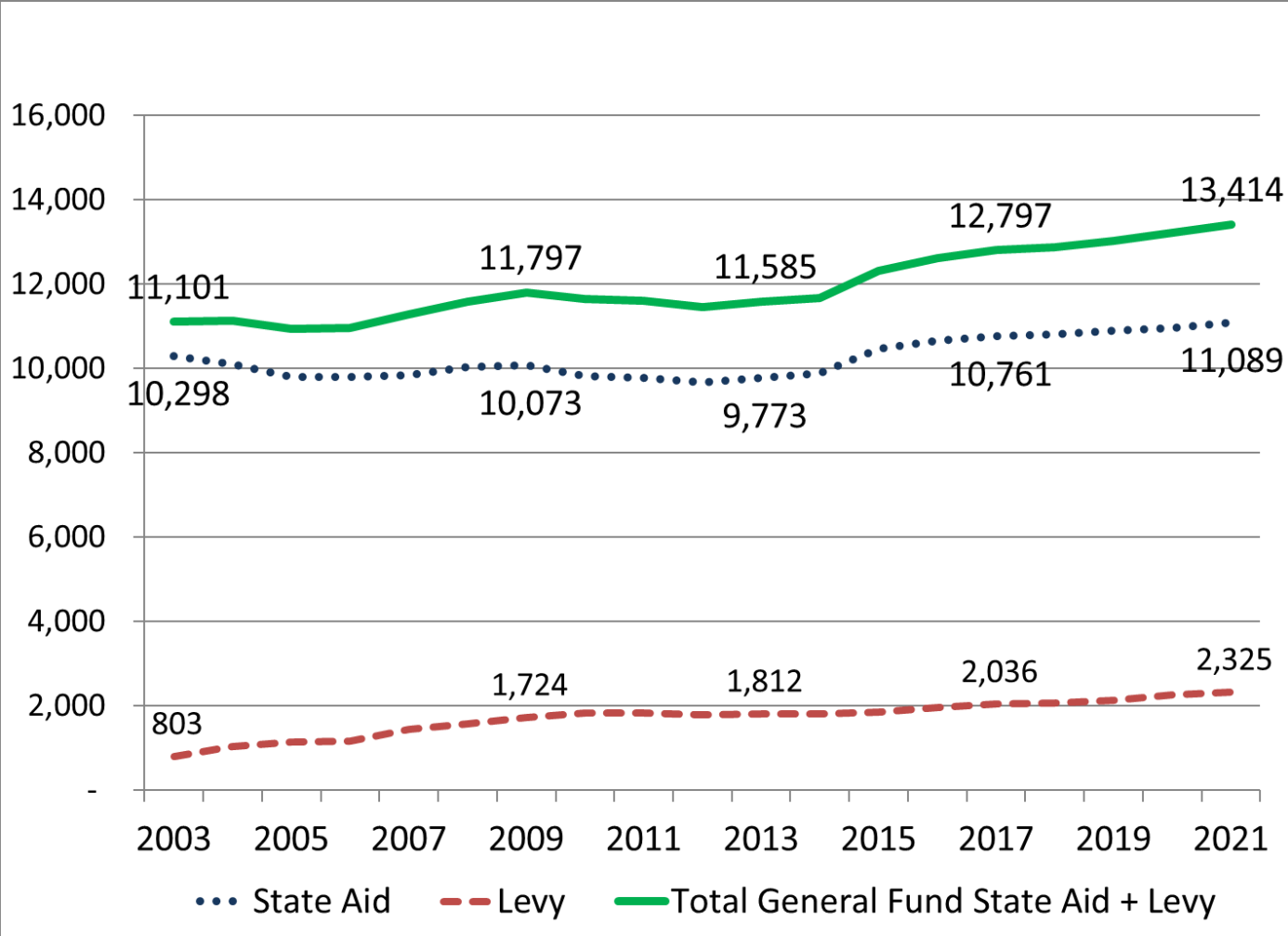
# General Fund Revenue

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School Districts are required to keep track of their revenue and expenditures according to the requirements of the school statewide accounting system, called UFARS.

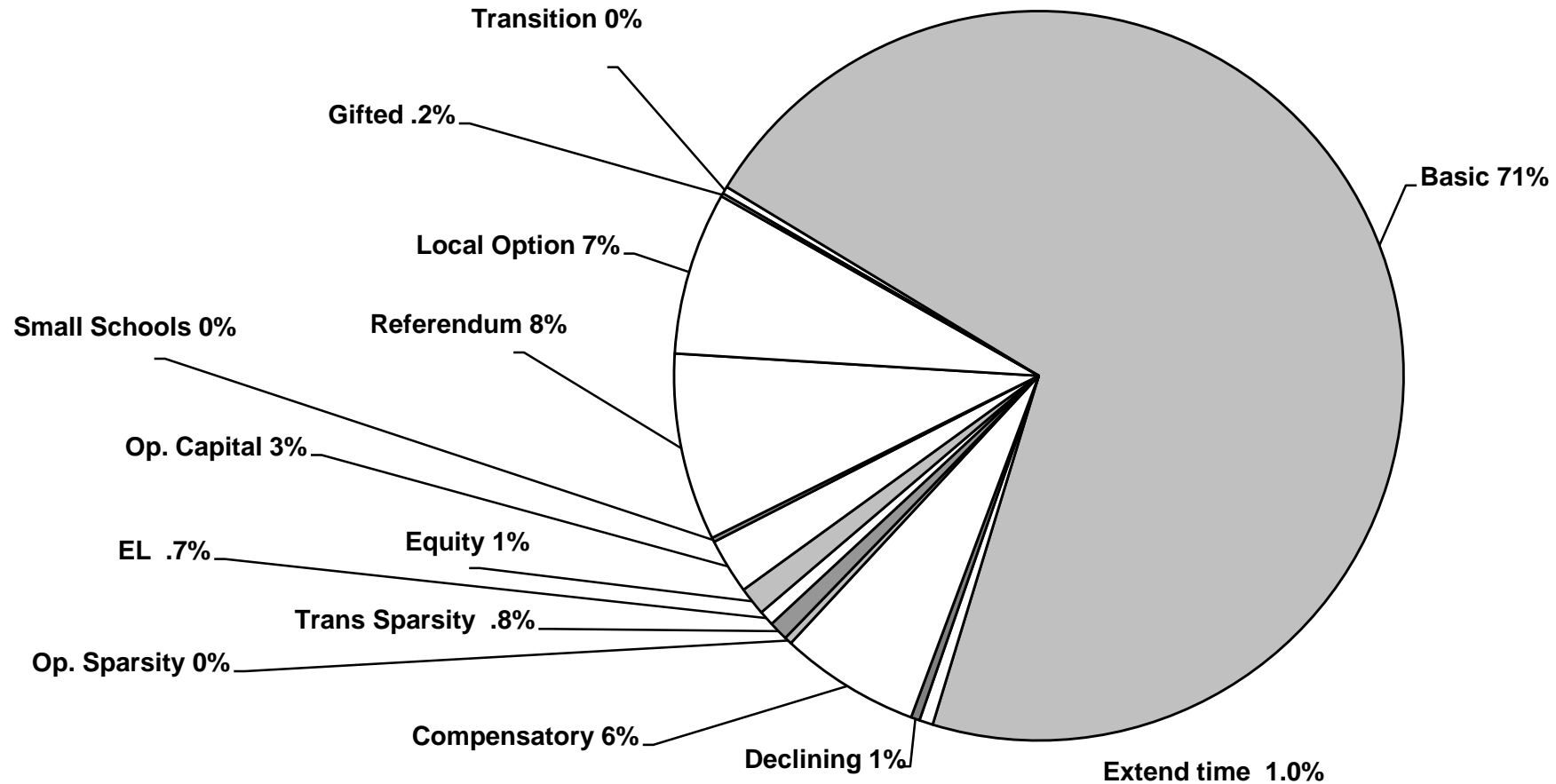
- The general fund, or operating fund, includes general education aid, special education aid, and other instructional and student support revenue programs.
- Some accounts in the general fund are reserved (staff development funding) and other accounts must be spent on the services for which the revenue was intended (e.g. special education), but the majority of the general fund is not reserved and is spent according to the budgets developed by local school boards.

# General Fund (Operating Fund) Revenue over Time



# General Education Revenue by Component FY 21

## \$8.801 Billion



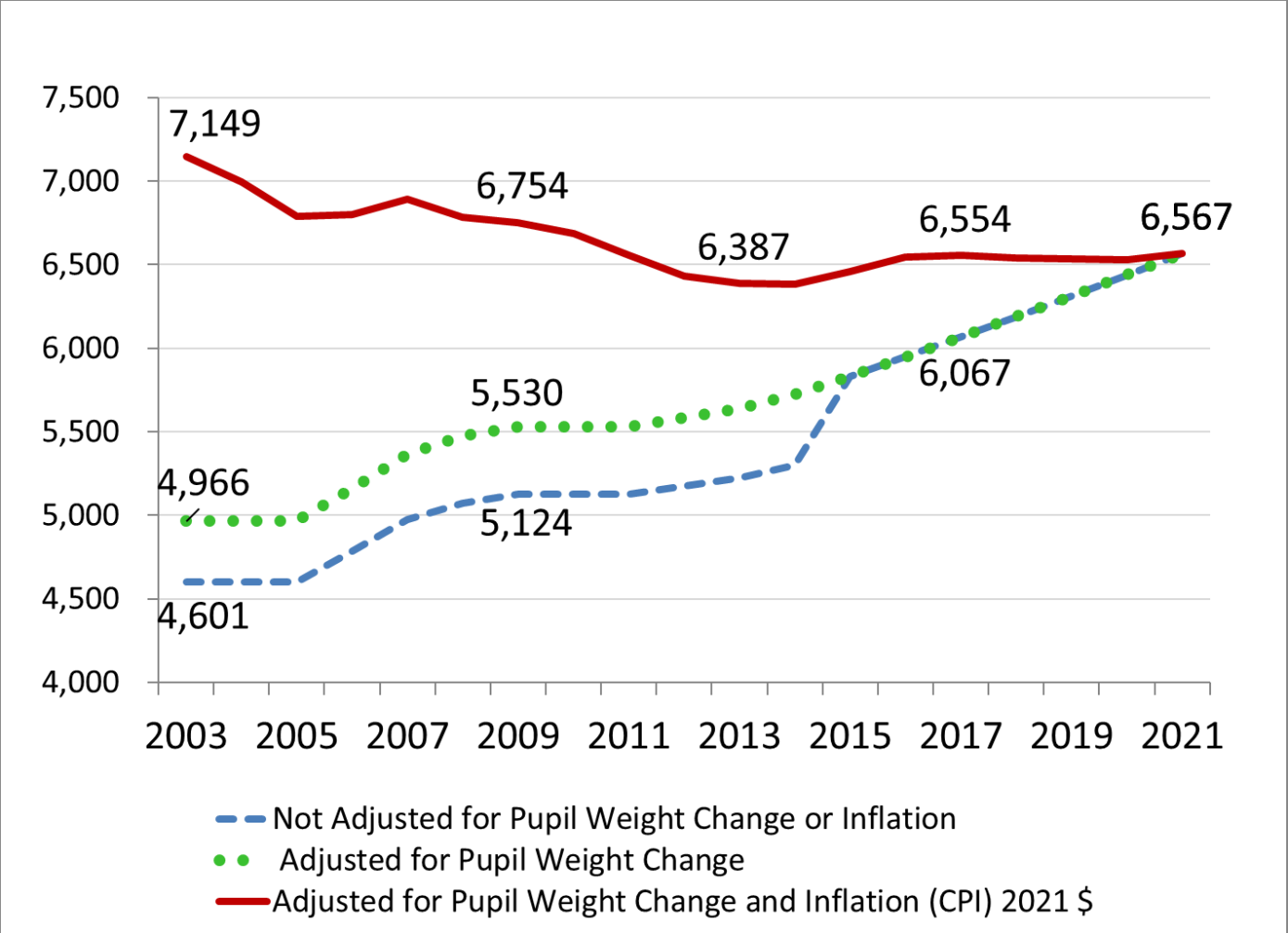
# General Education Basic Formula Allowance

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The basic formula allowance comprises more than 70% of general education revenue.

- The basic formula allowance for FY 21 is \$6,567 per pupil unit (adjusted weighted average daily membership).
- The basic formula allowance is the same for every school district and charter school in the state.
- The basic formula allowance is not linked to inflation and does not automatically increase.
- A simple rule of thumb, since there are about 1,000,000 pupil units, is that each 1% increase in the basic formula allowance costs about \$66 million per year.

# General Education Basic Formula Allowance over Time





# General Education Compensatory Revenue

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School districts and charter schools qualify for compensatory revenue based on each school's percent of students who are eligible for free or reduced-price meals.

- Compensatory revenue is called a “concentration” formula. The greater the percentage of students who qualify for free or reduced-price meals at each site, the greater the compensatory revenue per free and reduced-price student.
- Students are determined eligible both through a direct match of other program eligibility (SNAP, etc.) and through the submission of paper eligibility forms by the student's family.

# General Education English Learner Revenue

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School districts and charter schools receive English Learning (EL) revenue to provide instruction to students with limited English skills. Programs may include bilingual programs or English-as-a-second-language programs.

- EL programs are partially funded through a two-part formula which provides \$704 per EL pupil in basic EL Aid and up to \$250 per EL pupil in concentration aid.
- A student is eligible for EL aid for up to seven years.
- There is a significant gap between EL aid and the amount school districts spend on EL services.

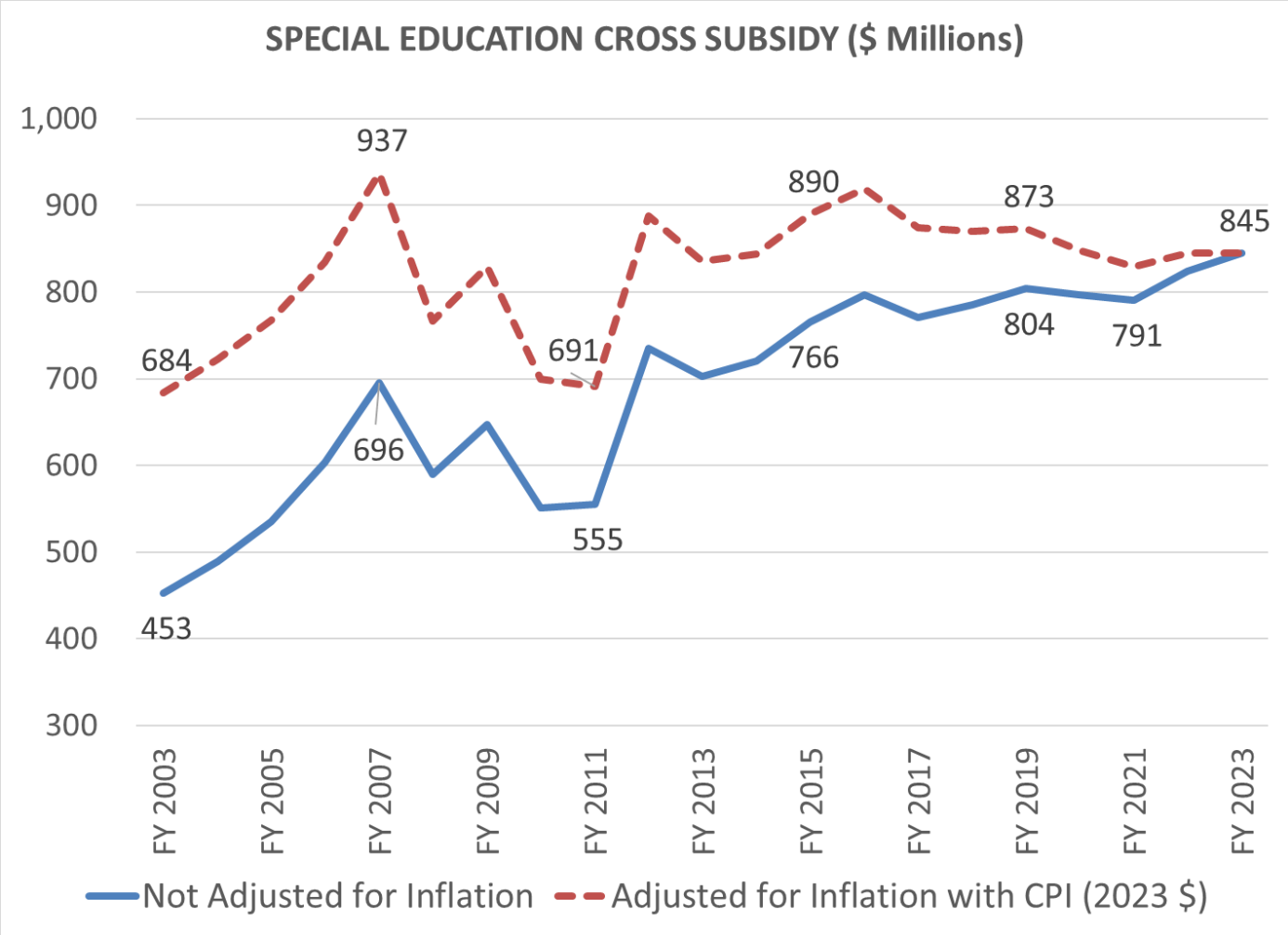
# Special Education Revenue

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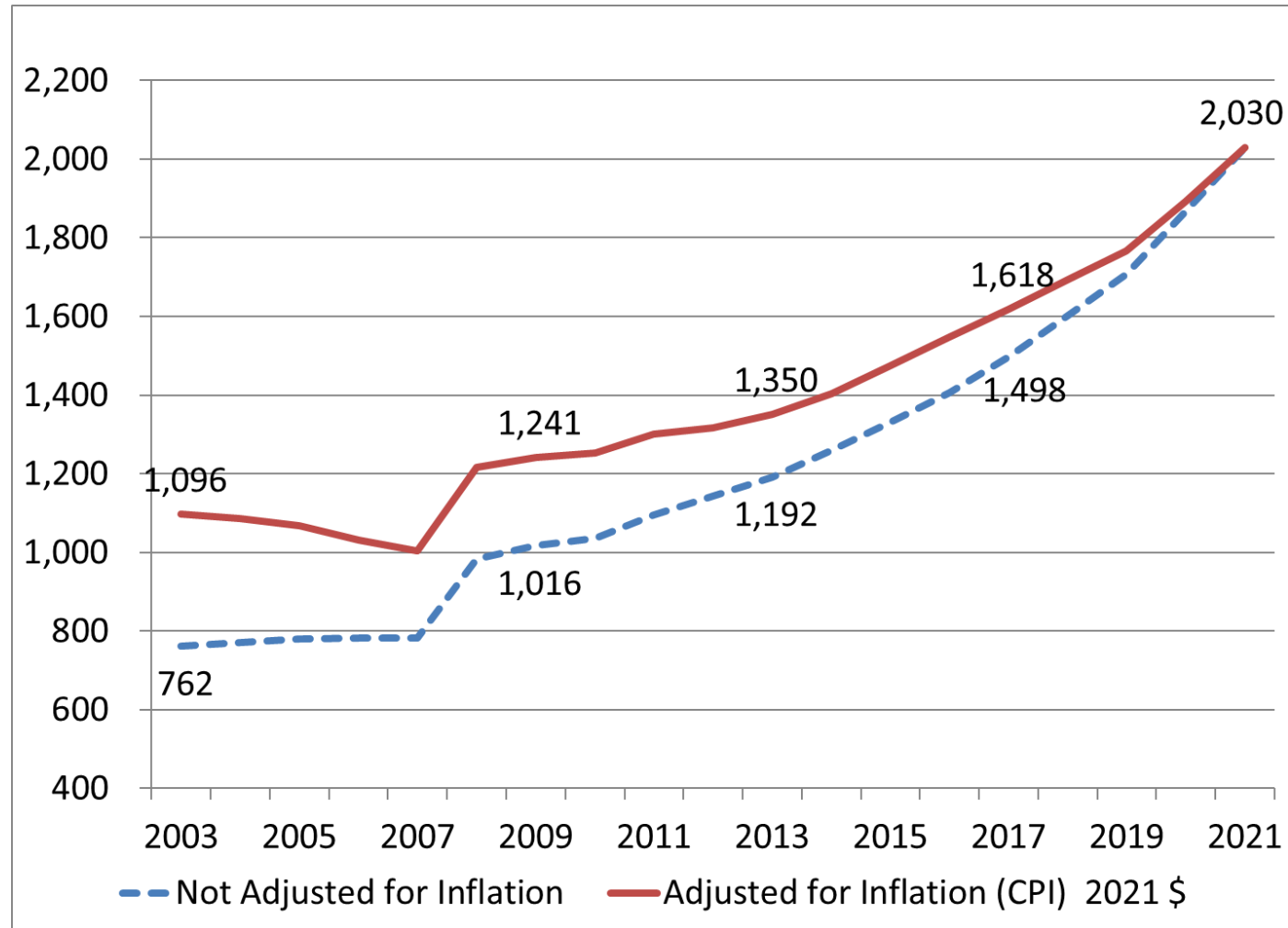
Special education revenue is primarily funded through a state aid formula that is a cost-based reimbursement formula.

- Most school districts' special education revenue is well below their special education spending. This difference between the district's revenue and expenditures is called the cross subsidy.
- Federal funds for special education services have significantly decreased as a percentage of total special education funding.
- 80% of the unreimbursed special education cost for open-enrolled students and charter school students is billed back to the student's resident school district. Charter schools receive another 10% of their unreimbursed special education costs directly from the state.

# Special Education Cross Subsidy



# Special Education Aid over Time (\$ in millions)



# Achievement and Integration Revenue

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172 school districts qualify for Achievement and Integration in Minnesota (AIM) Revenue.

- A school district that files an integration plan with the Department of Education is eligible for AIM revenue. Most districts that file a plan are required to do so under Minnesota's integration rule.
- AIM revenue is provided through a mix of aid and levy, with 70 percent of the revenue provided in state aid and the remaining 30 percent provided through the local levy or other local resources.
- The AIM printout shows estimated revenue for the 2020-21 school year.

# Student Movement

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Minnesota's K12 funding system is primarily based on the count of students served by each school district or charter school. Minnesota has a number of laws that allow students to move from one instructional setting to another and in these cases, the money generally follows the student to the serving institution.

- Open Enrollment allows students to leave their resident school district and enroll in another district.
- PSEO allows high school students to dual enroll in college courses.
- Charter schools allow a resident student to enroll in a charter school.
- Tuition arrangements allow students to attend school in another district.
- Limited interstate reciprocity agreements allow Minnesota students to enroll in certain South Dakota and Iowa school districts.

# Student Movement

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Minnesota's students may move from one school district to another school district or charter school. The House Research Department "Lookup" tool, an online spreadsheet, allows the user to see, for each school district, the districts that the students leave to attend, and the districts that students come from when they enroll into a school district or charter school.

<https://www.house.leg.state.mn.us/hrd/issinfo/stdmove.aspx>

The school finance guidebooks have detailed descriptions of the ways that the funding moves under Minnesota's student movement programs.



# Questions?

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Minnesota House Research Department provides nonpartisan legislative, legal, and information services to the Minnesota House of Representatives.

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