

Minnesota K-12 Education Finance System Context and Overview

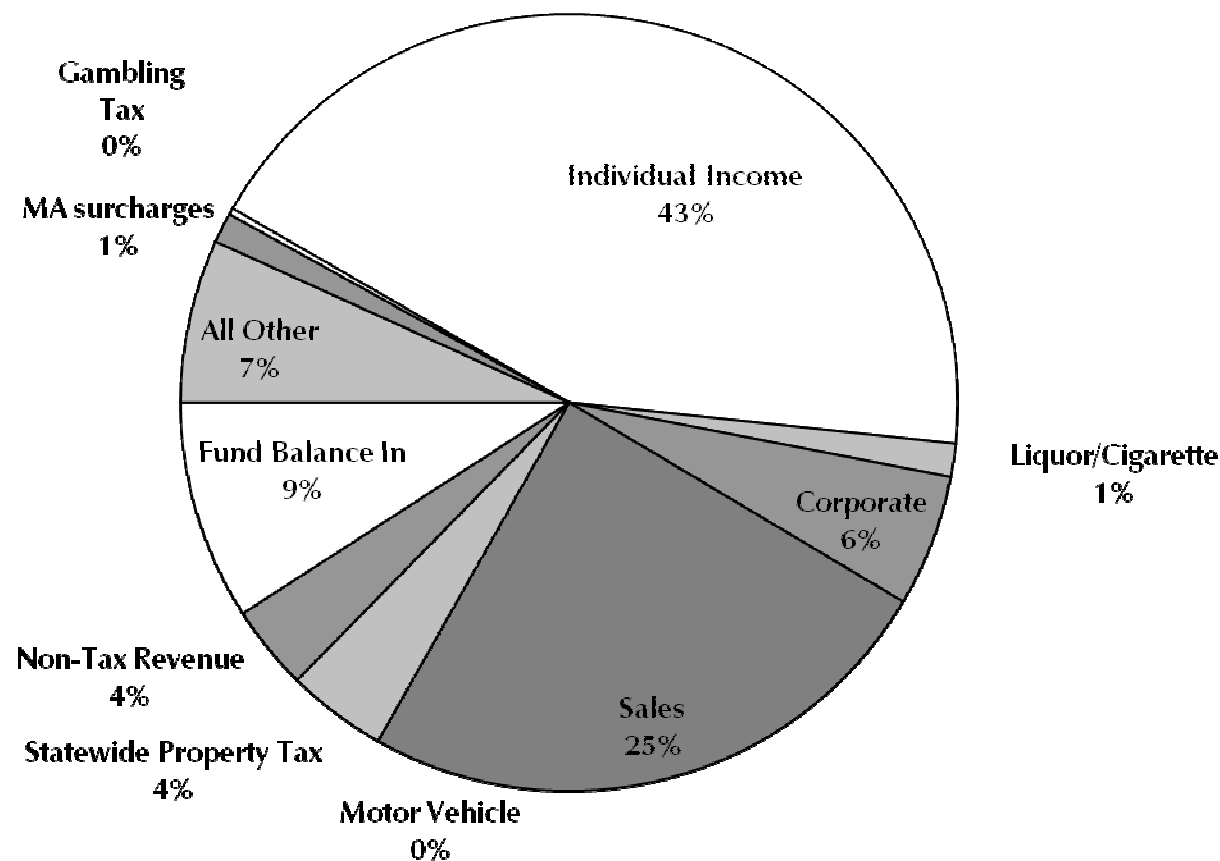
House Education Finance Committee

**Presented by Tim Strom & Melissa Johnson
January 17, 2013**

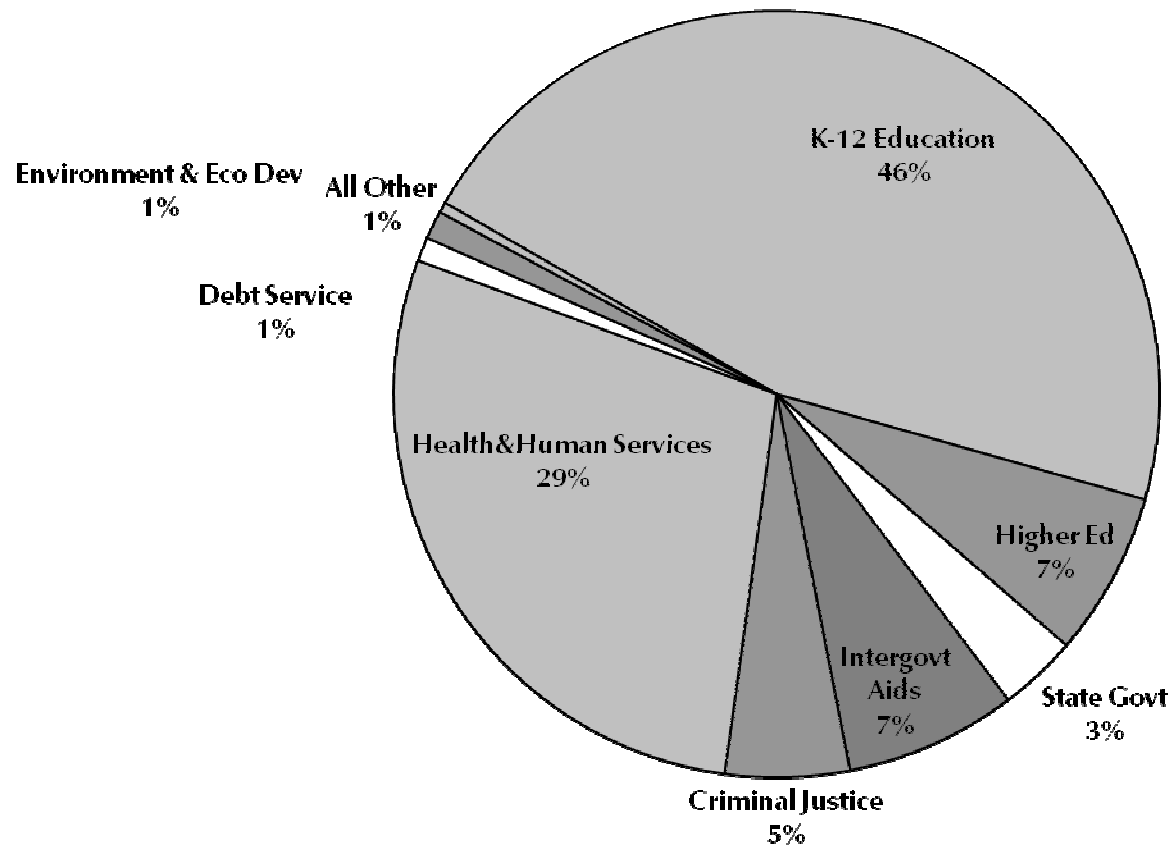
Topics for Discussion

- **1) State Budget:**
 - where the money comes from
 - where the money goes
 - Change in tax revenue over time
 - State Share of funding
- **2) School District Property Taxes:**
 - Property Tax Terminology
 - Taxes Paid by Type of Government
 - Tax Base Comparison
- **3) Student Enrollment**
 - change over time
 - by region and size
- **4) Major Components of School Finance System:**
 - General Education Revenue
 - Categorical Revenues
 - Trends and Other Data

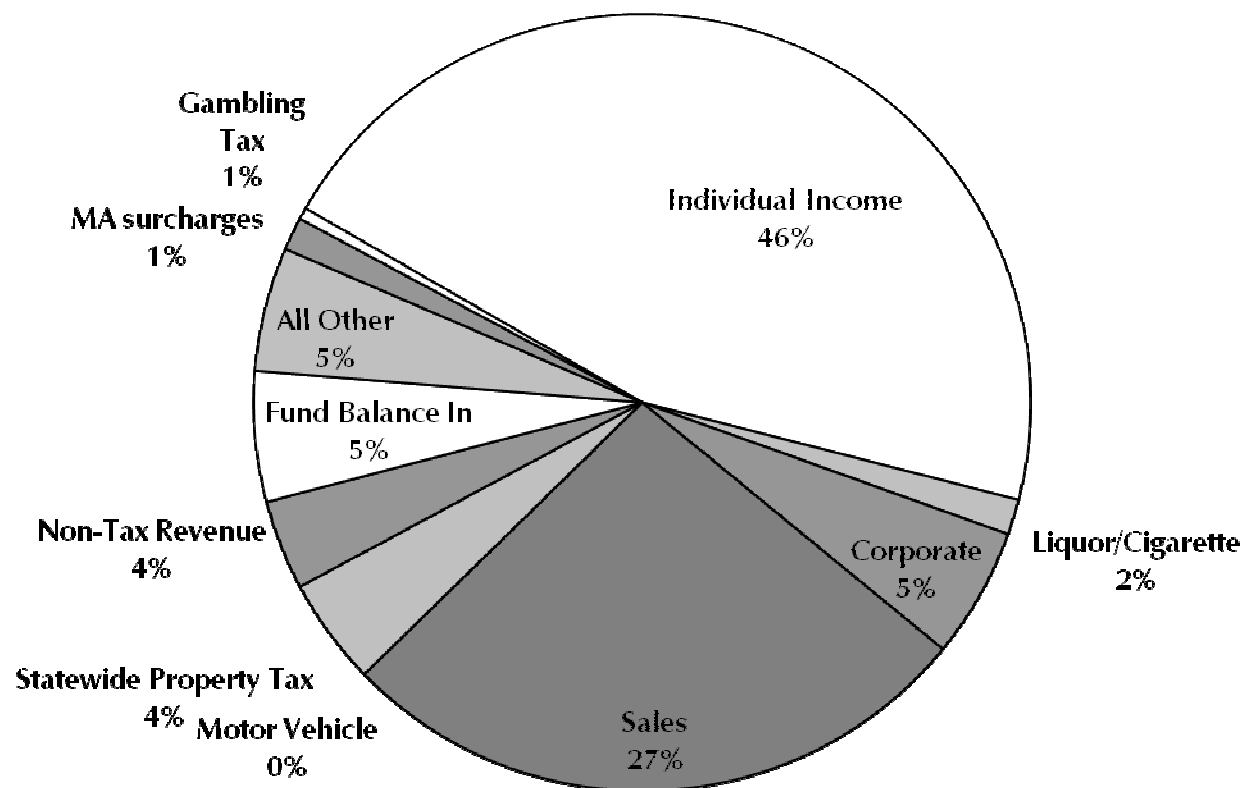
Where the Money Comes From: FY 13 State General Fund \$19.653 Billion



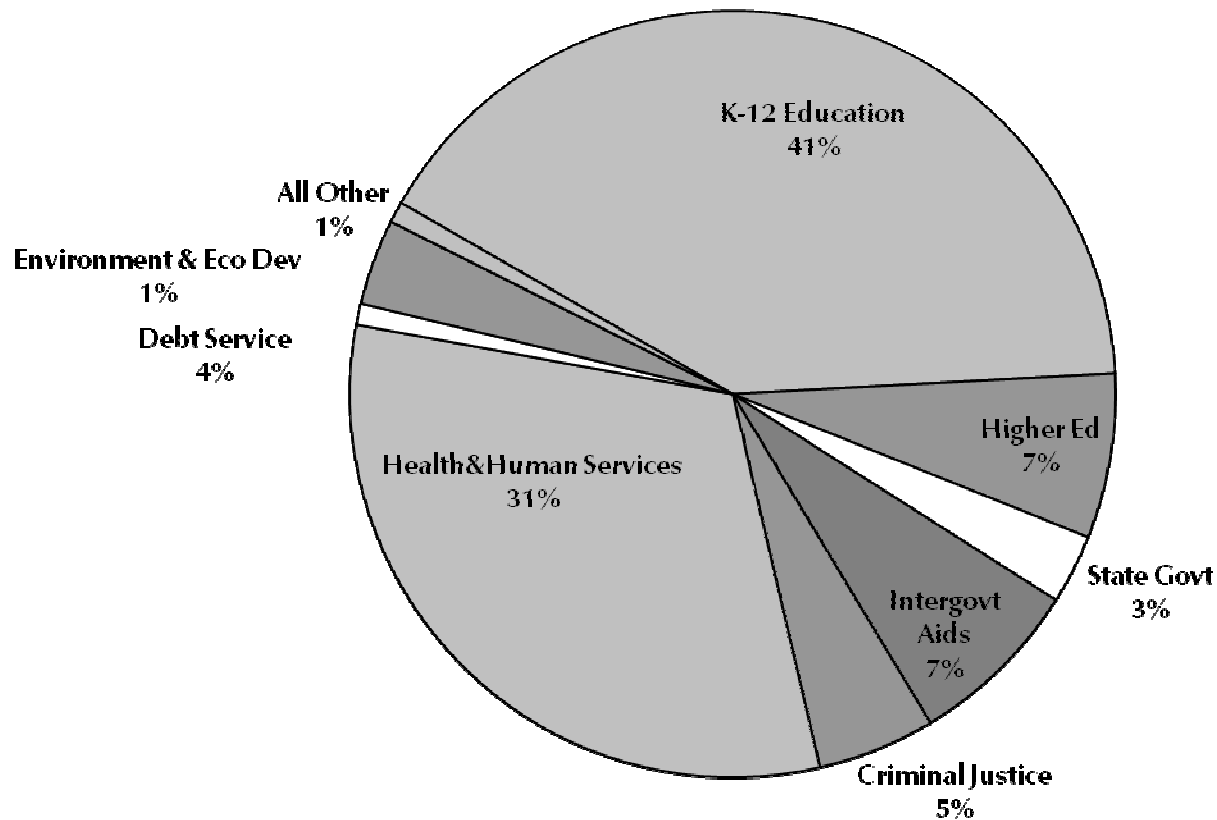
Where the Money Goes: FY 13 State General Fund Spending \$18.642 Billion



Where the Money Comes From: FY 14 State General Fund \$18.614 Billion

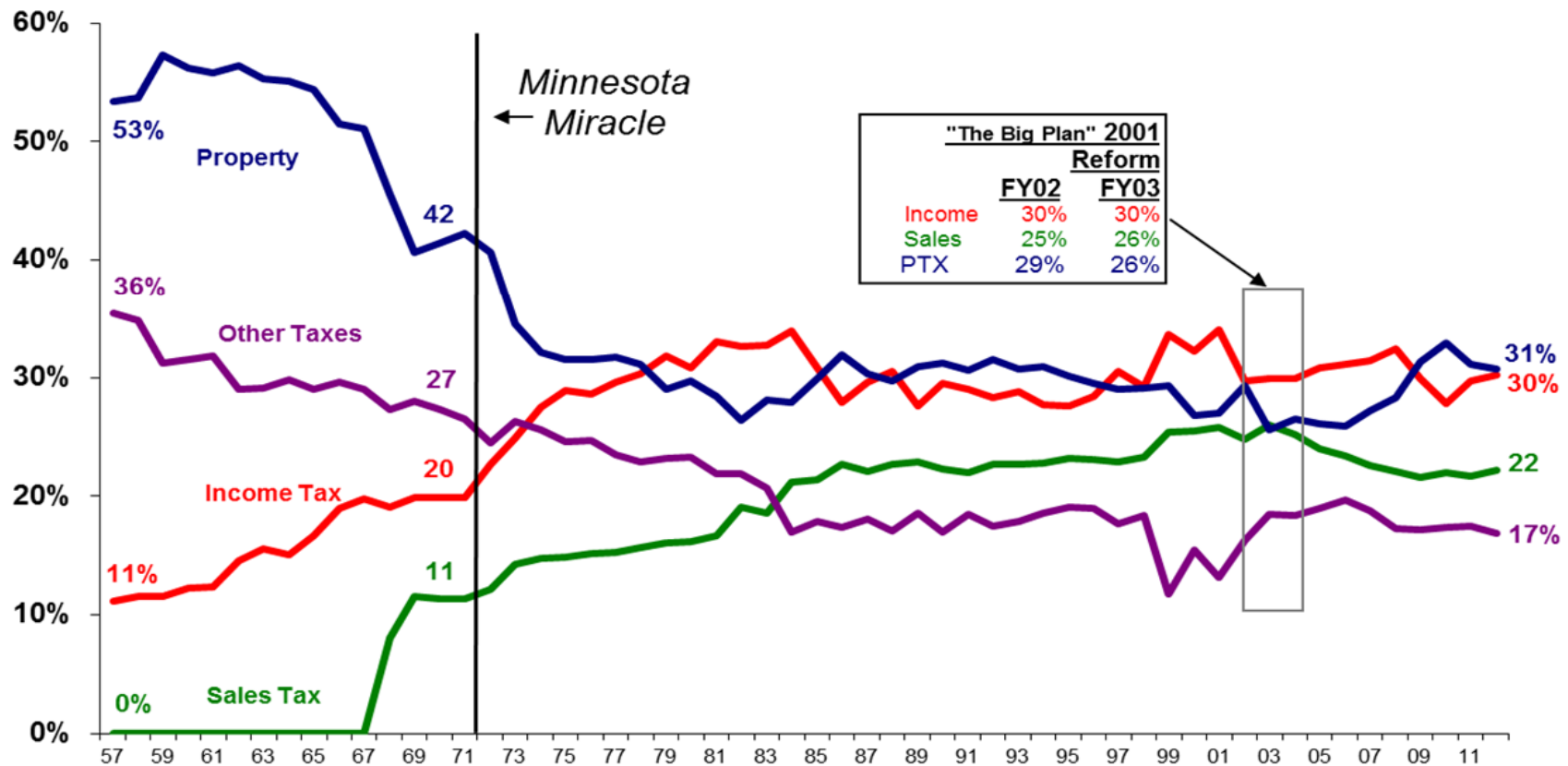


Where the Money Goes: FY 14 State General Fund Spending \$18.419 Billion



State and Local Tax Revenue History

History of Major Taxes Percent Share
FY 1957 - 2012



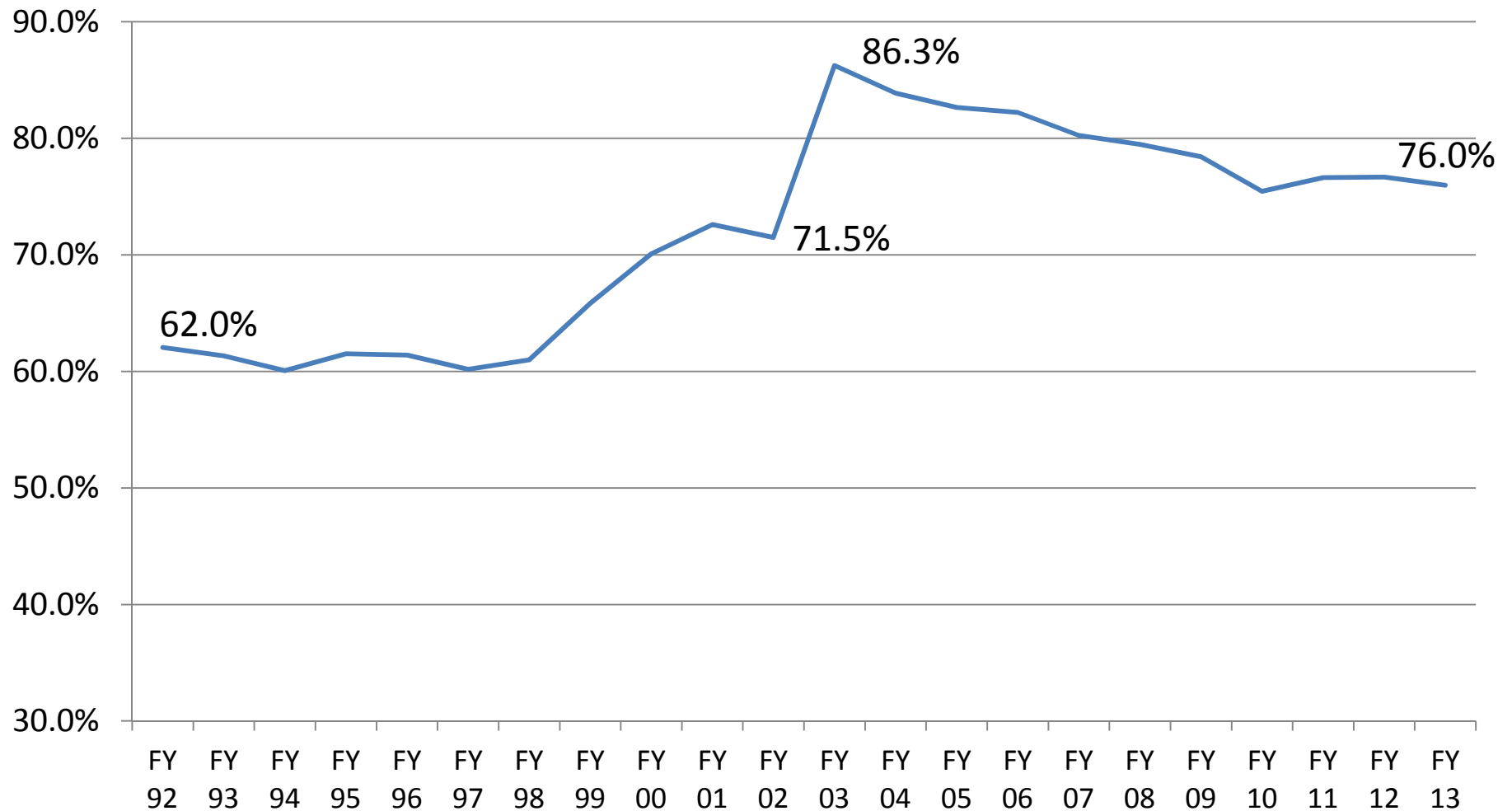
Source: Minnesota Department of Revenue and
Price of Government, End of Session 2012
Includes sales tax rebates FY 1999-2001

State Share of School Funding

The state aid for school districts, as a percentage of state aid plus levy (which excludes federal funds and other local funds such as fees for food service, etc.) had been fairly constant during the 1970s, 1980s and early 1990s.

The state aid began increasing in the late 1990s, and the 2001 overhaul of the state's property tax system increased the state share of K-12 funding to nearly 90% of the total. Since that time, the state share has been steadily decreasing so that the state share for FY 2011 is now about 77% of total revenue.

State Share of State-Local Tax Revenue for K-12 Education, FY 1992 – FY 2013



Property Tax Terminology

Property Tax Base (Taxes Payable 2012)

- **Taxable Market Value** = Estimated Market Value – Market Value Exclusion
 - Market value exclusion = 40% of first \$76,000 of value, less 9% of value over \$76,000 (no exclusion for homes valued at \$413,800 or above)
- **Tax Capacity** = Taxable Market Value X Class Rate
 - Class Rates are statutory percentages applied to taxable market value:

Residential Homestead:	First \$500,000	1.00%
	Remainder	1.25%

Agricultural Land and Buildings (homestead)		
	First \$1,290,000	0.55%
	Over \$1,290,000	1.00%

Commercial and Industrial	First \$150,000	1.50%
	Remainder	2.00%

Seasonal Rec. Residential	First \$500,000	1.00%
	Remainder	1.25%

Property Tax Terminology

Property Tax Base (Continued)

- **Sales Ratio** = Estimated Market Value / Actual Sales Price
 - (Computed by State Revenue Department based on comparison of assessor's estimates of market values with actual sales prices.)
- **Adjusted Net Tax Capacity** = Net Tax Capacity / Sales Ratio
- **Referendum Market Value**
 - Equals estimated market value, excluding the following property classes:
 - Ag Land & Buildings (*Note: house, garage, and one acre are not exempt*)
 - Seasonal Recreational Residential
 - Used only for operating referendum, transition and equity levy calculations
 - Market value exclusion does not apply to these levies

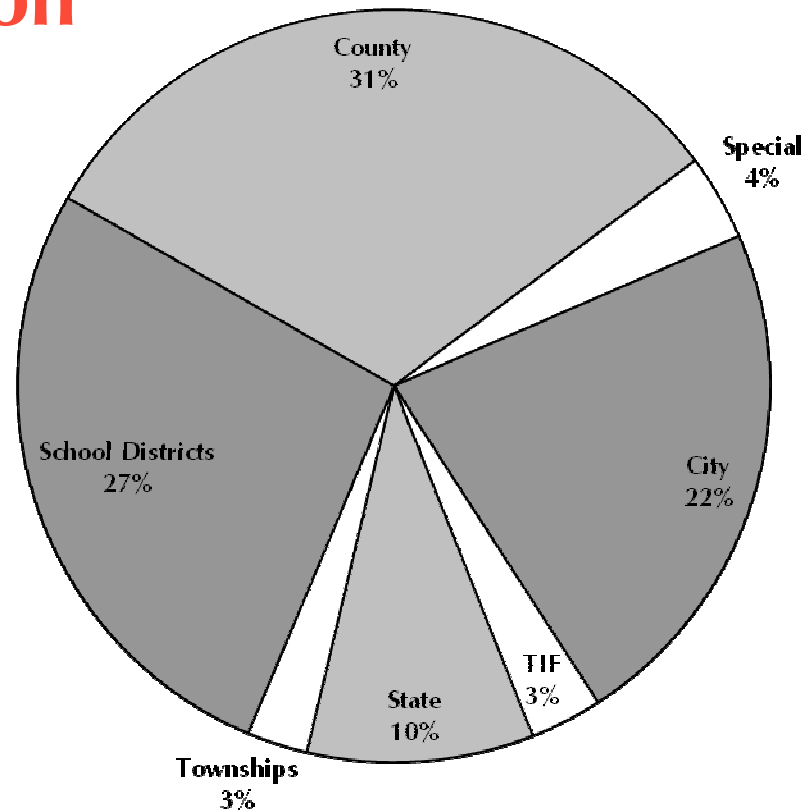
Property Tax Overview

Property taxes have been a major part of school district funding for more than 100 years. Changes made by the 2001 Legislature have substantially reduced the share of property taxes that go to school districts, but school districts are still the second largest user of property taxes.

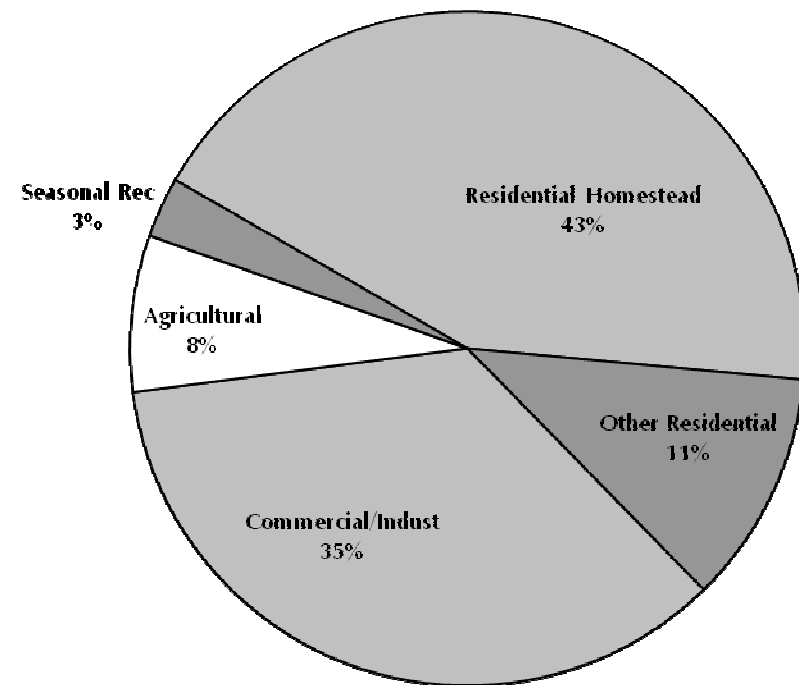
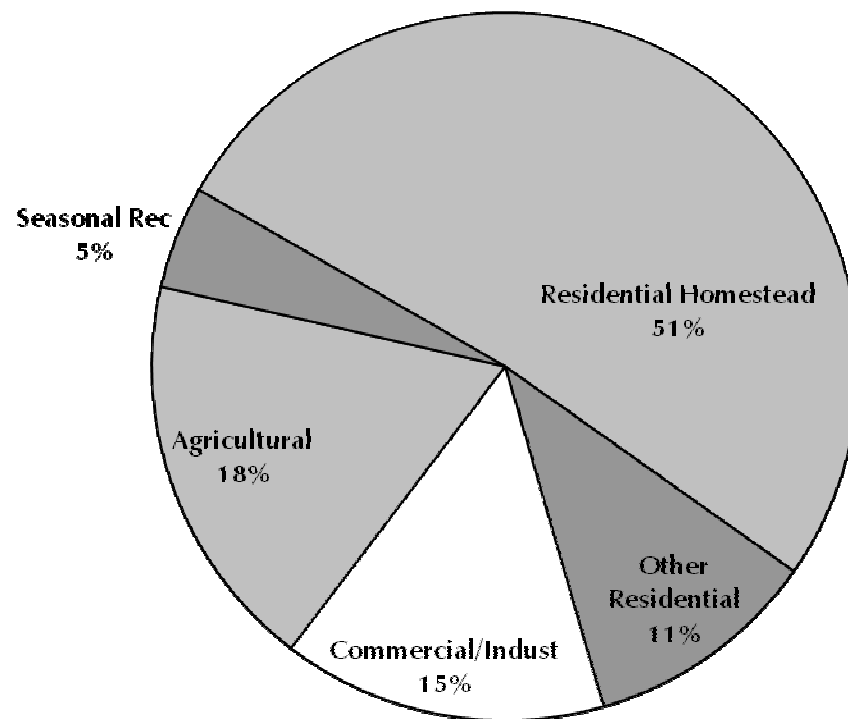
Property Taxes Payable in 2012

By Type of Government

\$8.384 Billion



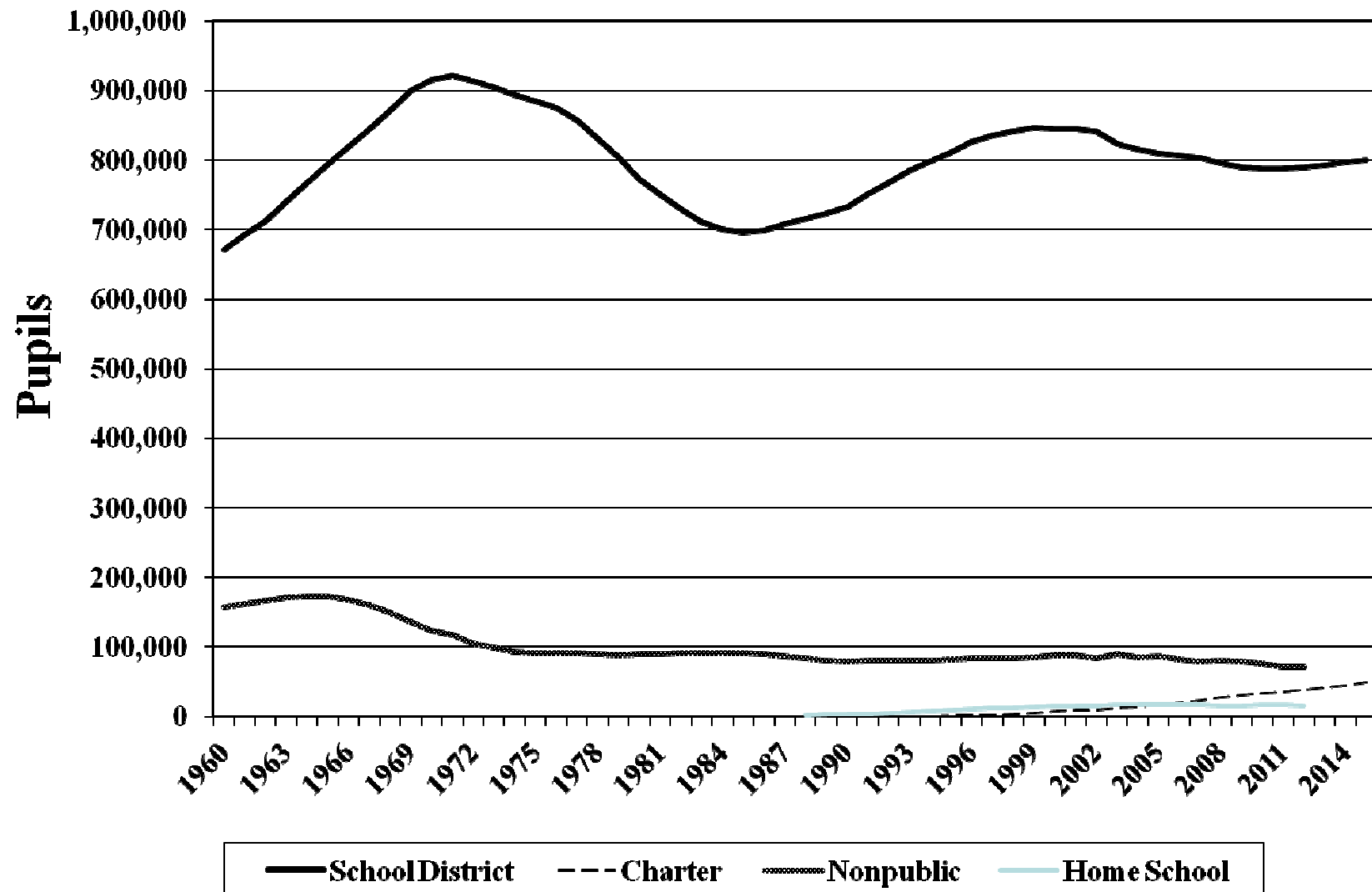
Taxable Market Value (\$552 Billion) and Taxes Paid (\$8.384 Billion) by Property Type Taxes Payable in 2012



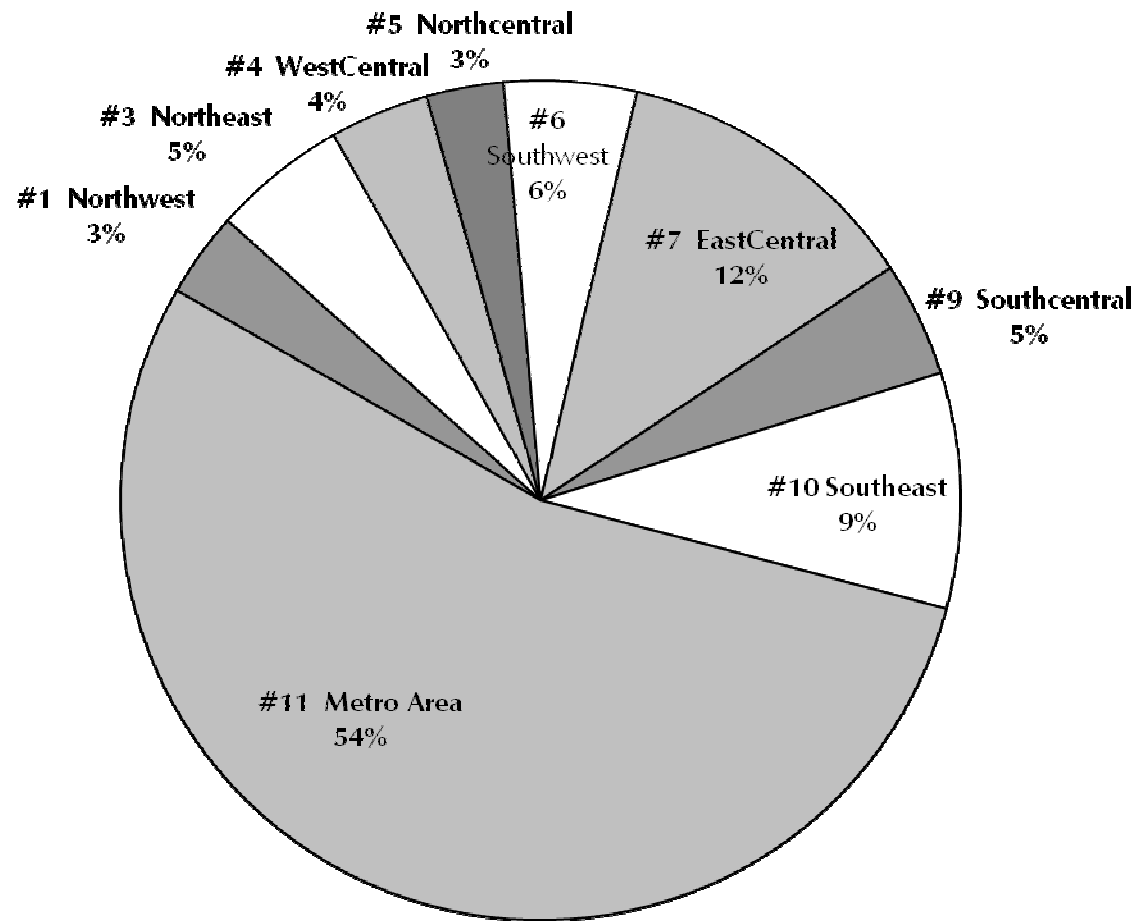
Student Enrollment and Counting Students

- Public school enrollment in Minnesota peaked in 1972 at the height of the baby boom at nearly 922,000 pupils.
 - Public school enrollment fell sharply from 1973 to 1985 then increased at a moderate rate from 1985 to 2001.
 - Statewide enrollment slowly declined from 2002 to 2009, began increasing in 2010, and is projected to continue to increase over the next decade.
 - Enrollment changes are very different across the state.
 - Most school districts have faced declining enrollment during the last 5 years.
 - Minnesota has a few very large school districts and many very small school districts.
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Minnesota School Enrollment 1960 to 2015

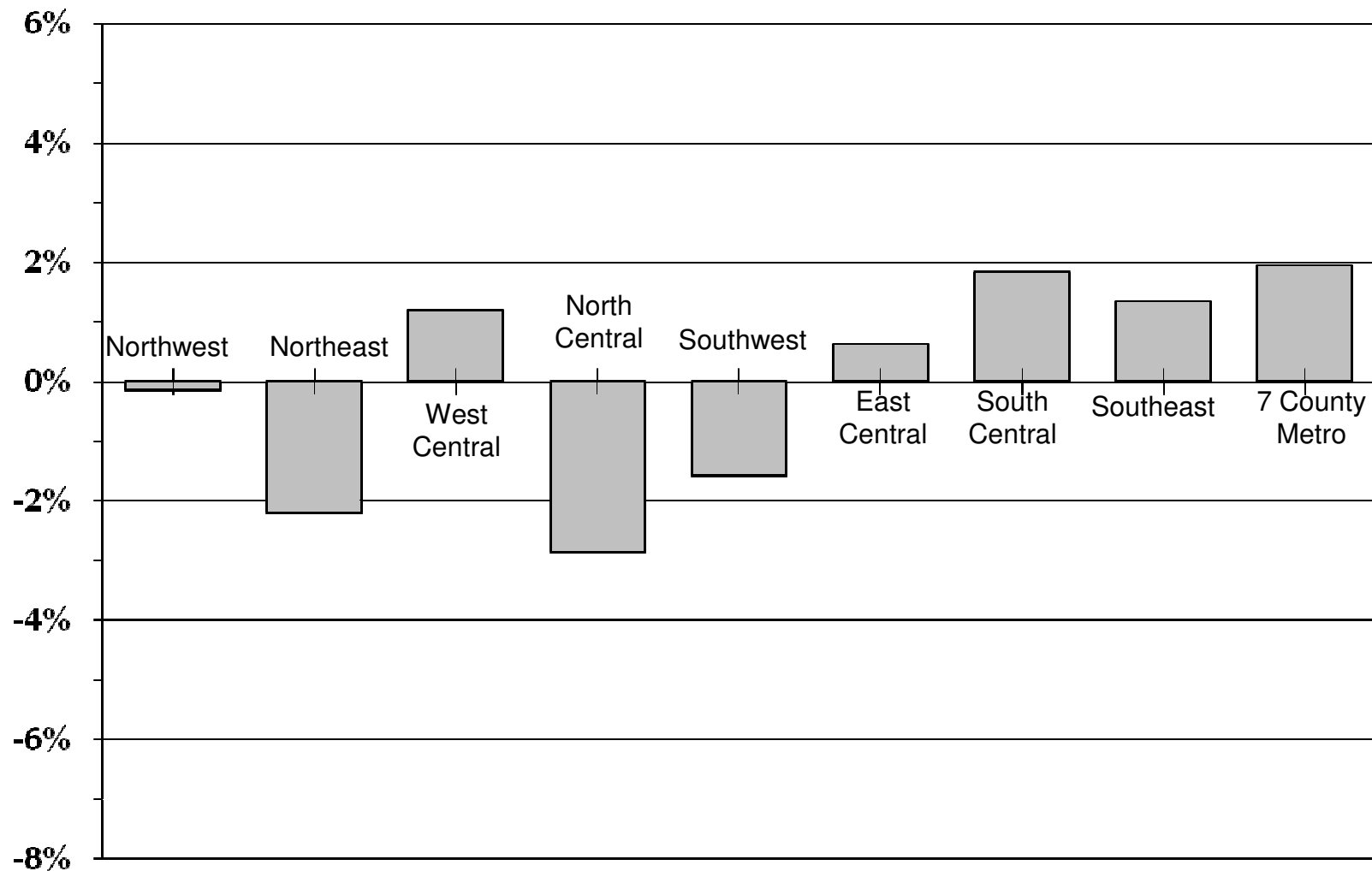


School Enrollment by Region FY 2013

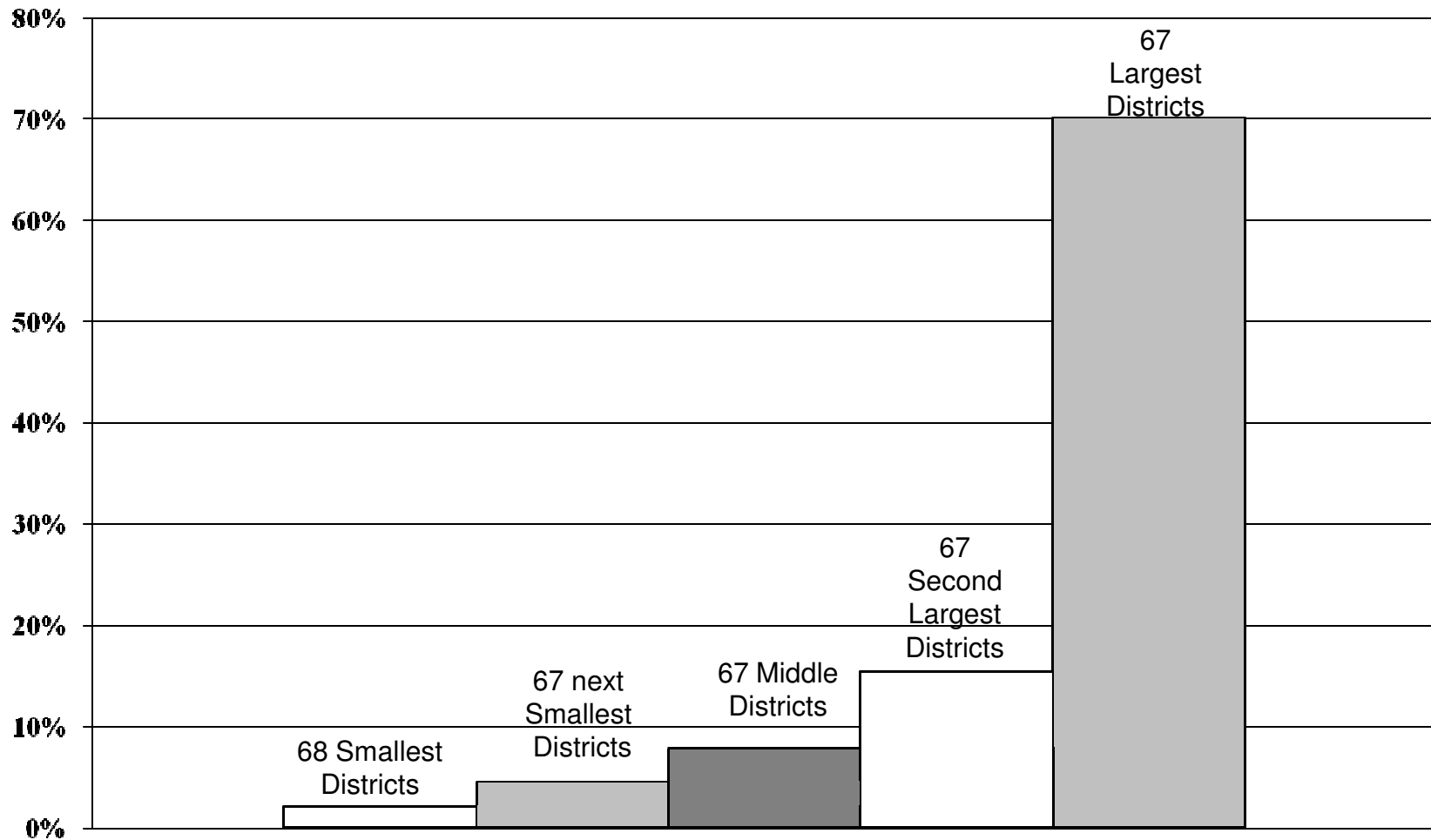


School District 5 Year Enrollment Change by Region FY 2009 to 2013

Percent



Percent of Students Enrolled by School District Size Quintile FY 2013



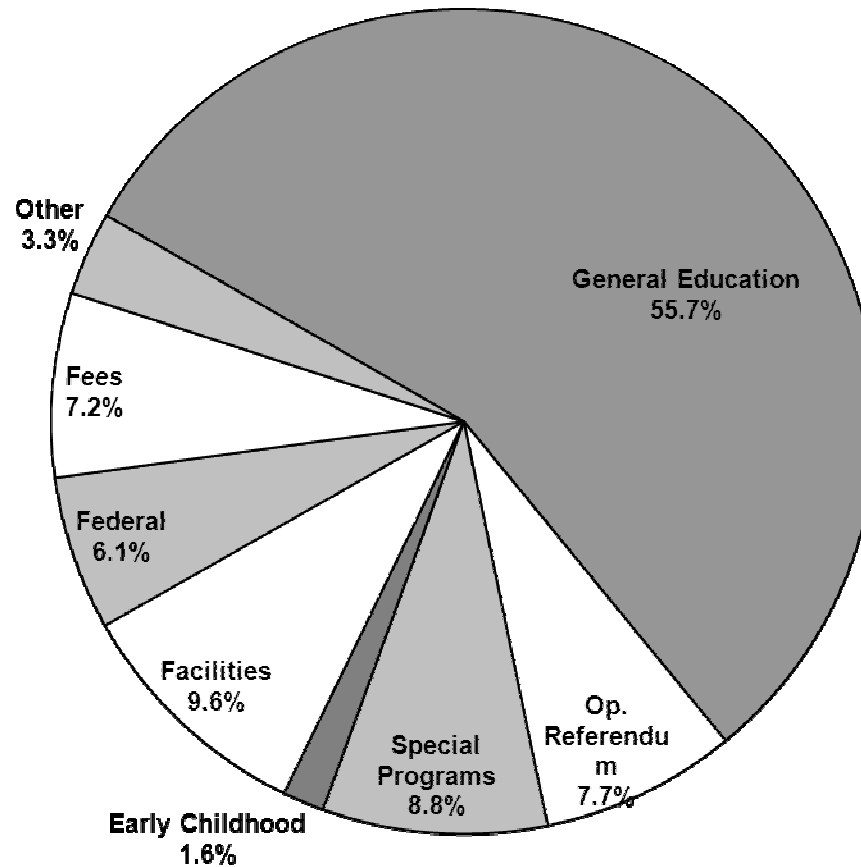
Percent Change in Enrollment, FY 2004 – FY 2012, School Districts and Charter Schools

	2004	2012	% Change
<u>Total Enrollment (adm):</u>			
School Districts	817,834	788,999	-3.5%
Charter Schools	11,998	38,726	222.8%
Districts + Charters	829,832	827,725	-0.3%
<u>Demographics:</u>			
Special Education	113,828	125,132	9.9%
Free and Reduced Lunch	238,371	311,871	30.8%
Limited English Proficient	53,507	64,623	20.8%
Students of Color	157,372	220,333	40.0%

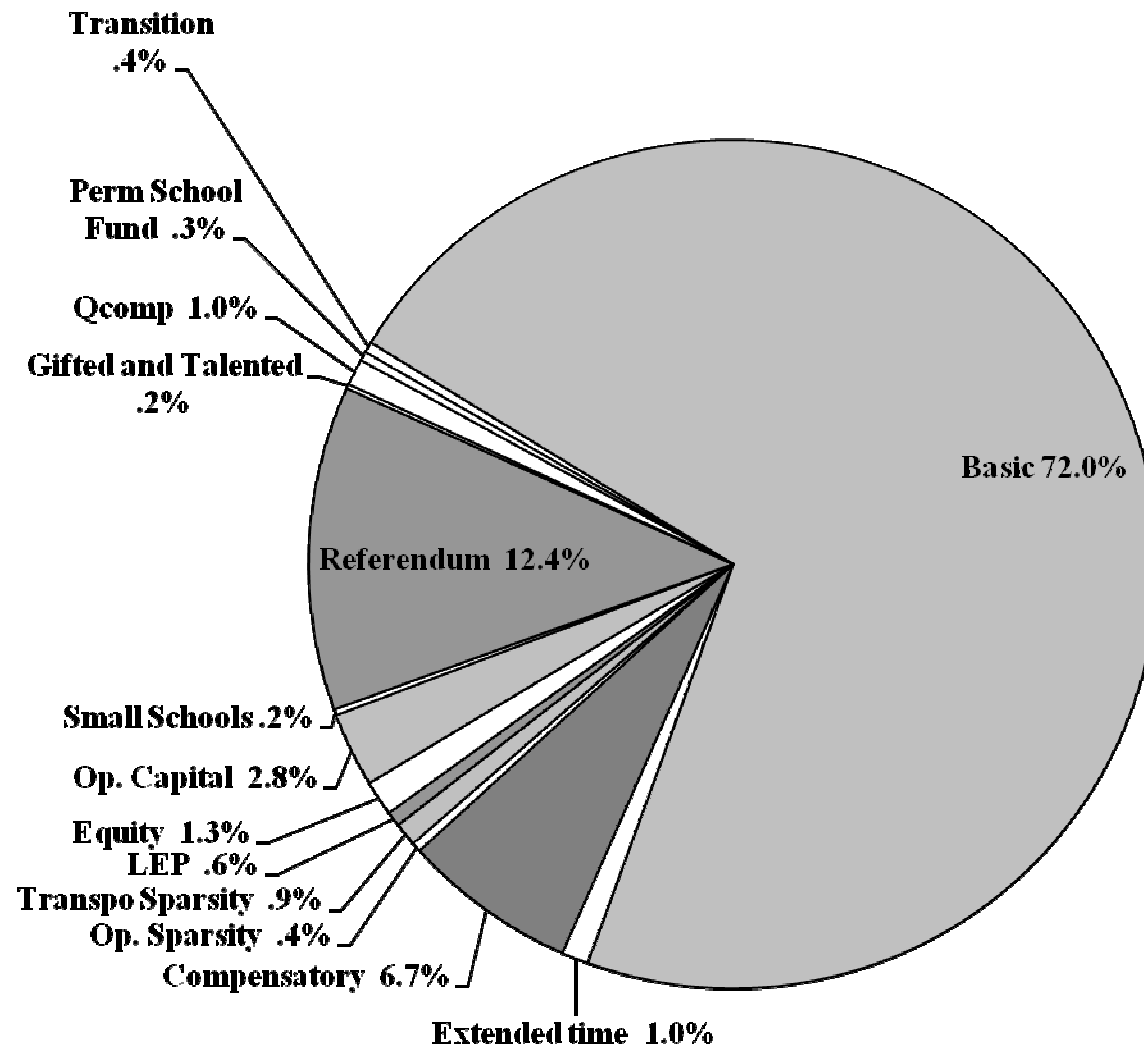
PK-12 Education Revenue

- Total Revenue by Funding Stream
- General Education Revenue Breakdowns
- Revenue Trends

Total Revenue for Education \$10.725 Billion FY 2013



General Education Revenue by Component \$6.926 Billion FY 2013



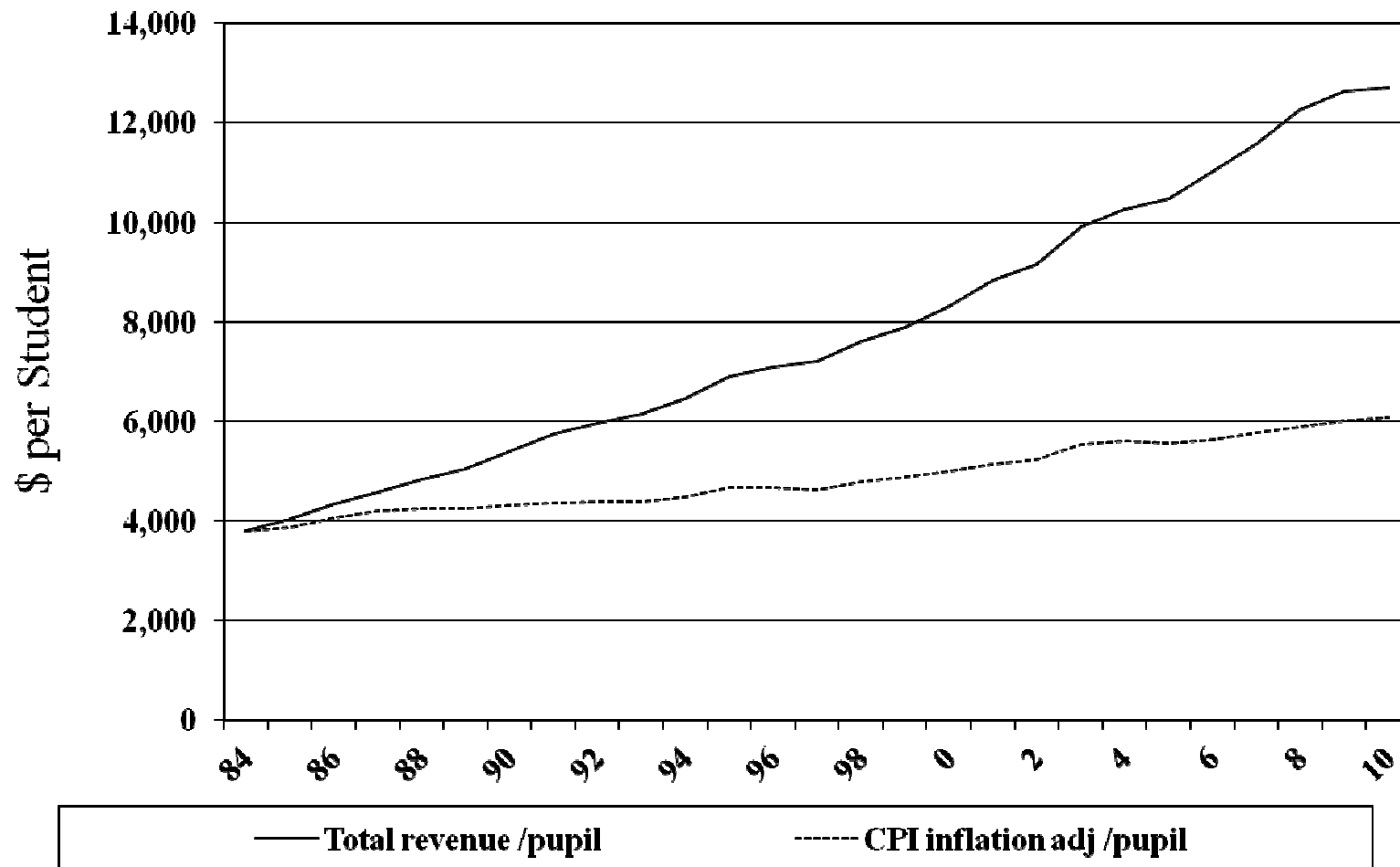
General Education Revenue

\$6.926 Billion in FY 13

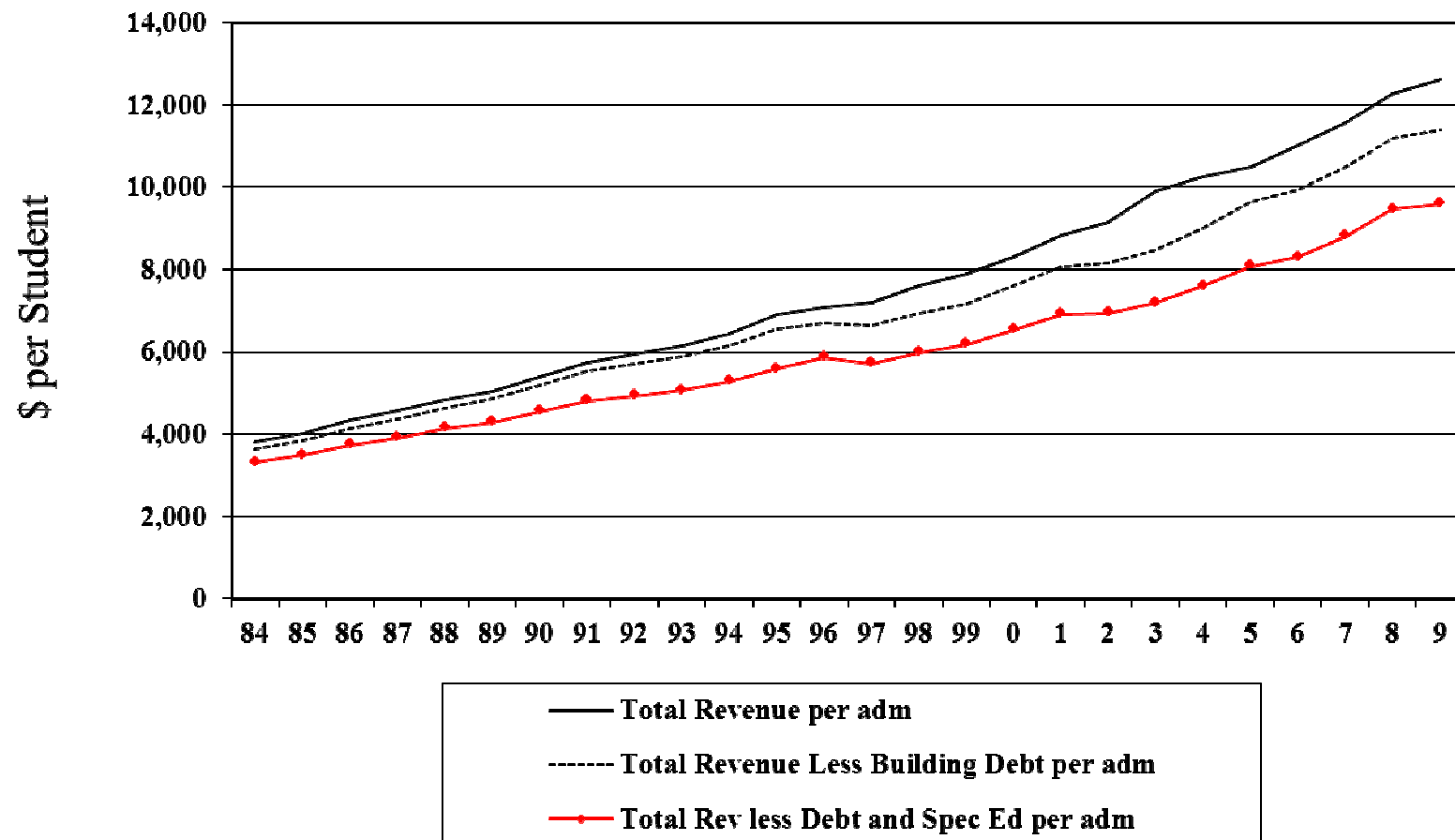
General Education Revenue consists of several components including:

- Basic Aid--\$4,991 million
- Extended Time--\$71 million
- Compensatory Revenue--\$461 million
- Limited English Proficiency (LEP) Funding--\$40 million
- Small Schools Revenue--\$16 million
- Operating Sparsity Revenue--\$25 million
- Transportation Sparsity Revenue--\$62 million
- Operating Capital Revenue--\$197 million
- Equity Revenue--\$93 million
- Gifted and Talented Revenue--\$12 million
- Q Comp Revenue \$70 million
- Transition Revenue--\$30 million
- Pensions Adjustment Reduction-- (\$31 million)
- Referendum Revenue--\$860 million

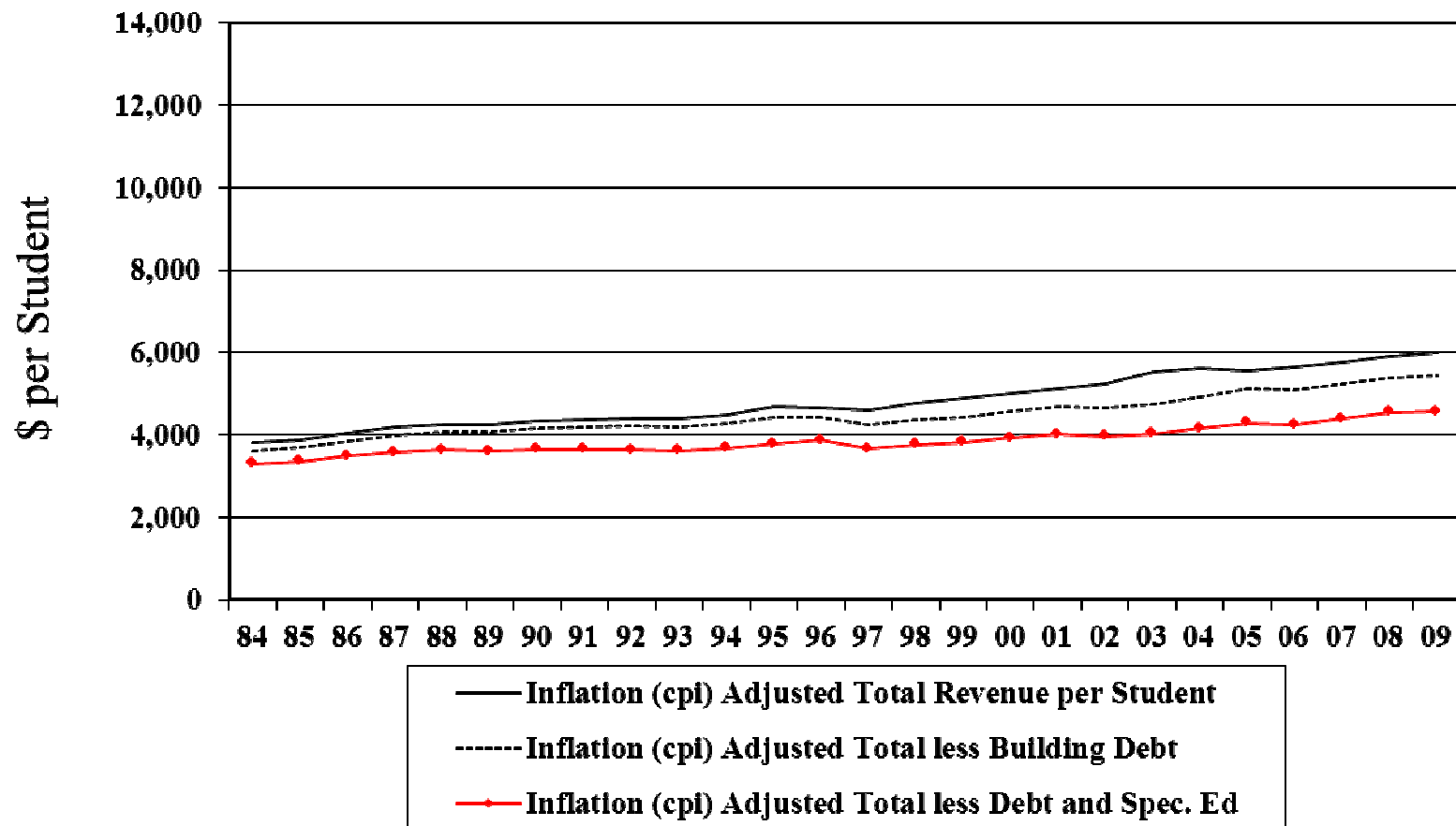
School District Revenue Per Student 1984 to 2010



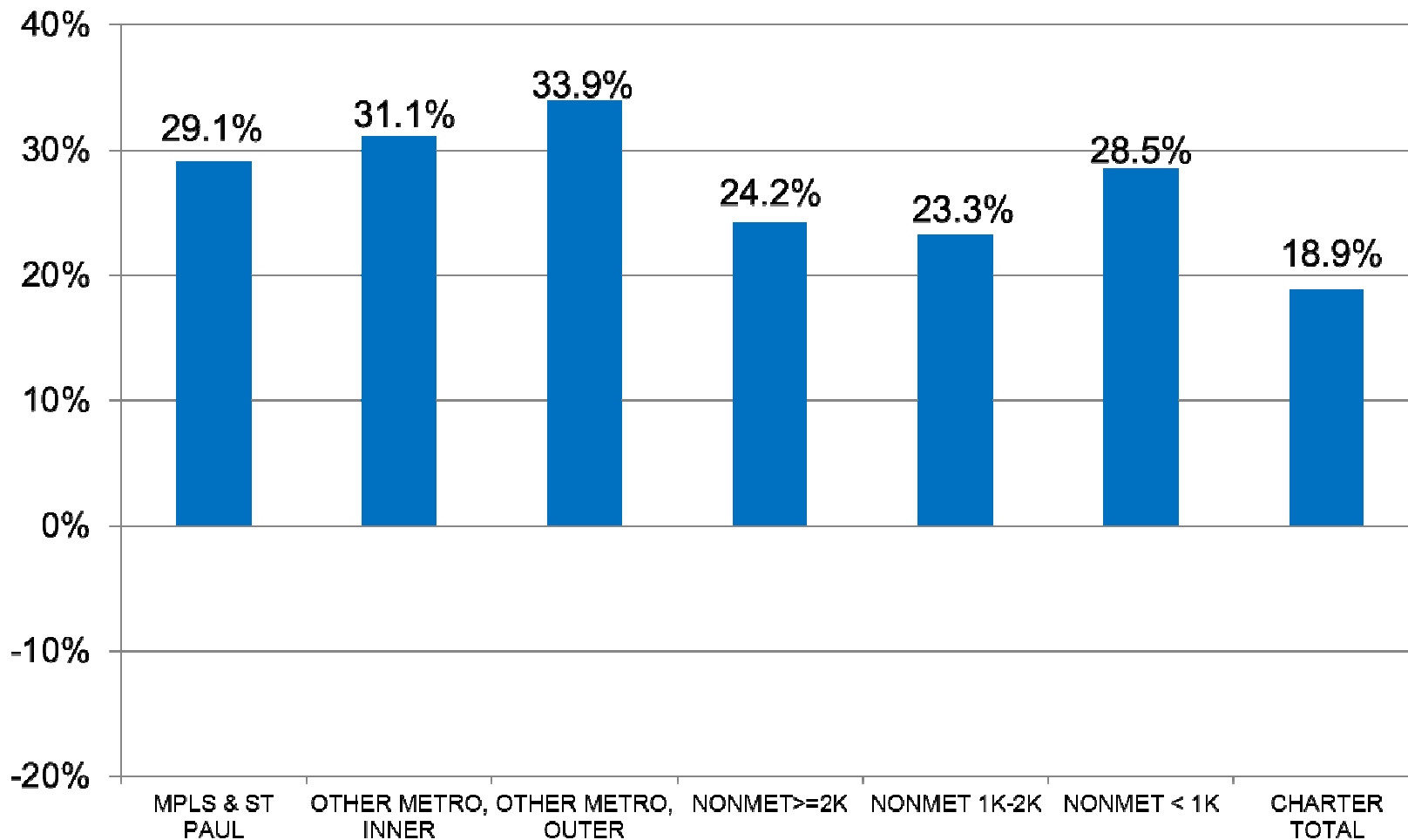
Revenue per Student Less Building Debt and Special Ed Expenses



Inflation Adjusted Revenue per Student Less Building Debt and Spec Ed Expenses

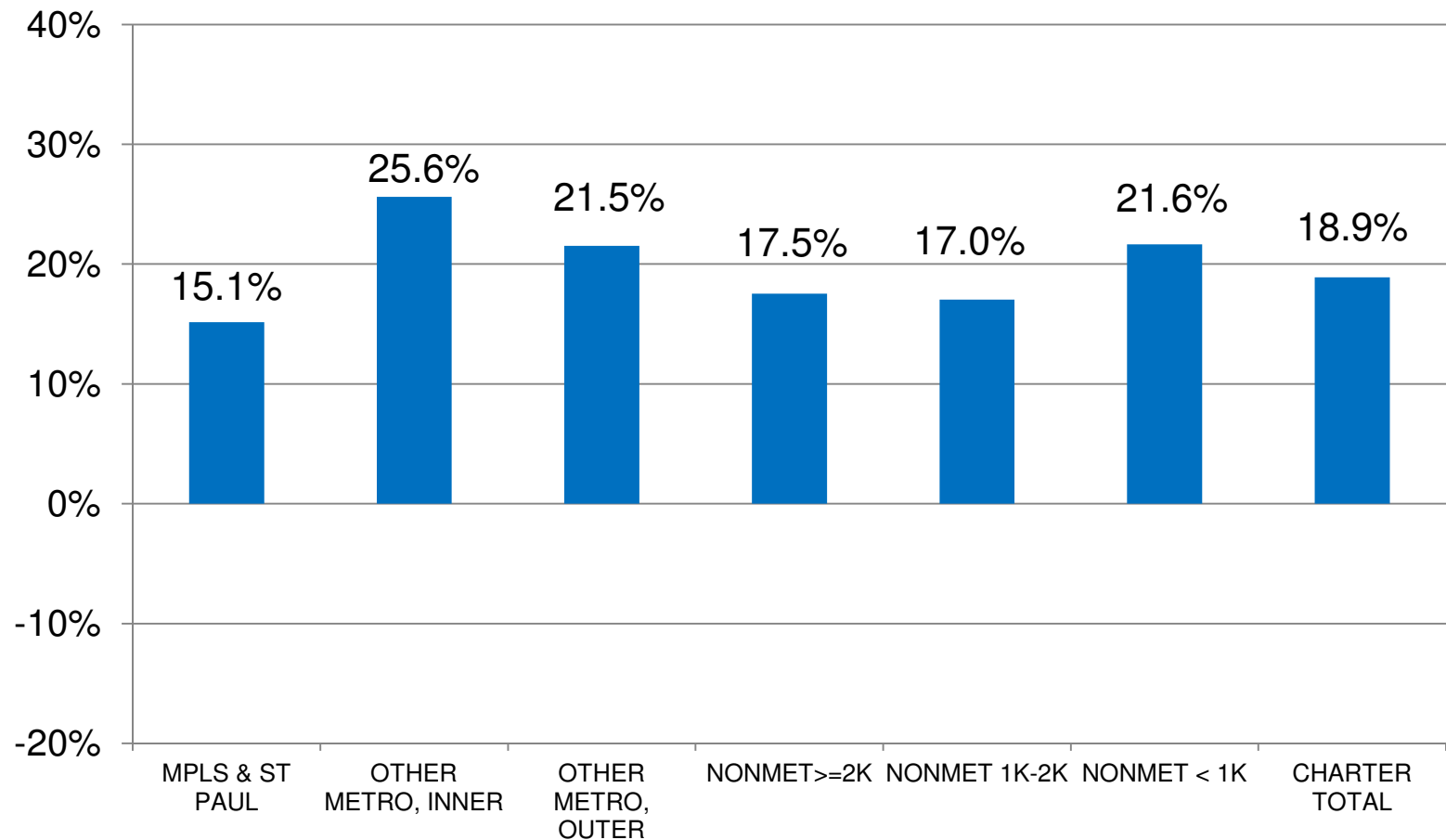


Percent Change in General Revenue / ADM, FY 2003 to FY 2013, Including Referendums, Not Adjusted for Inflation

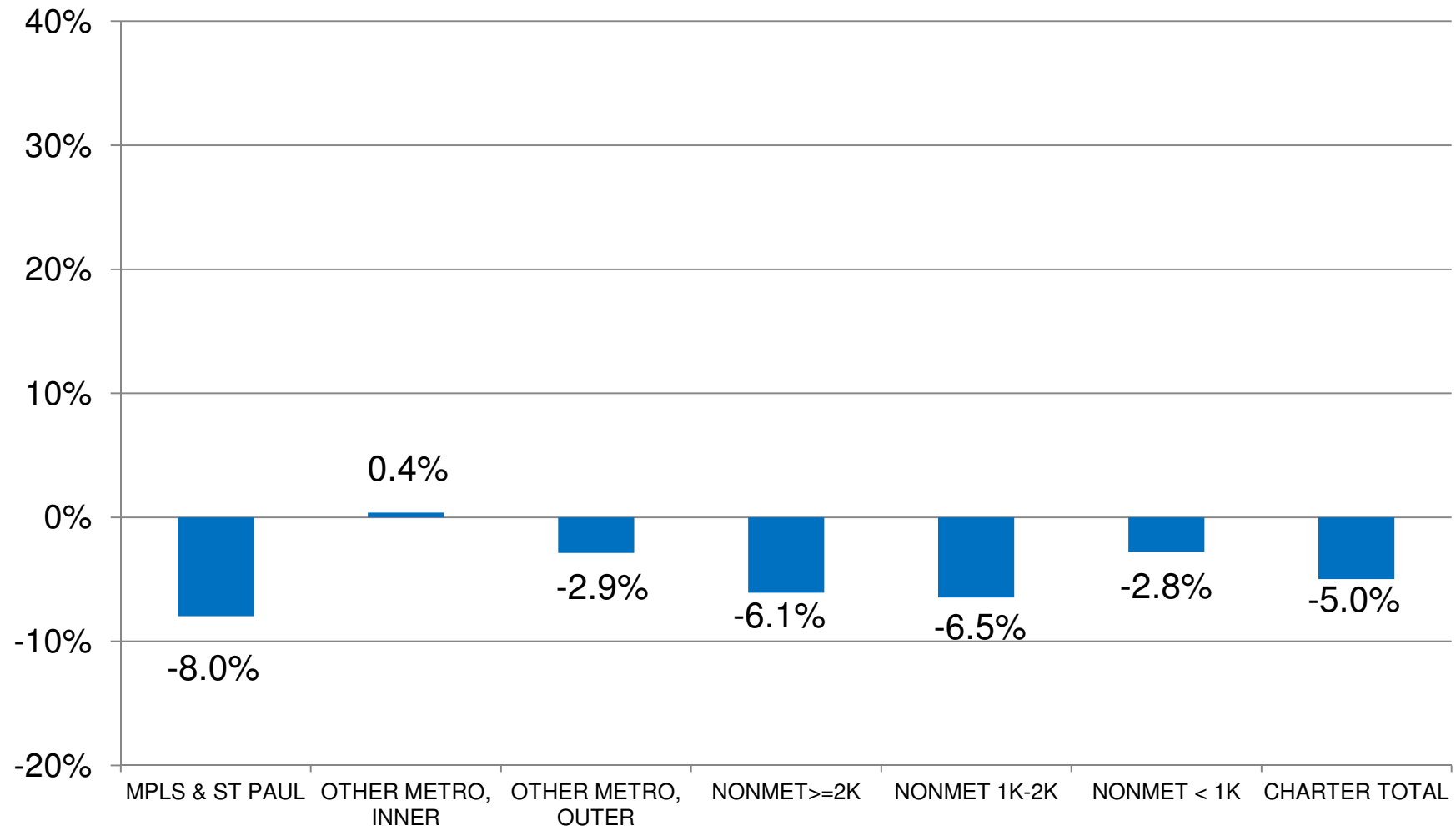


Source: MDE

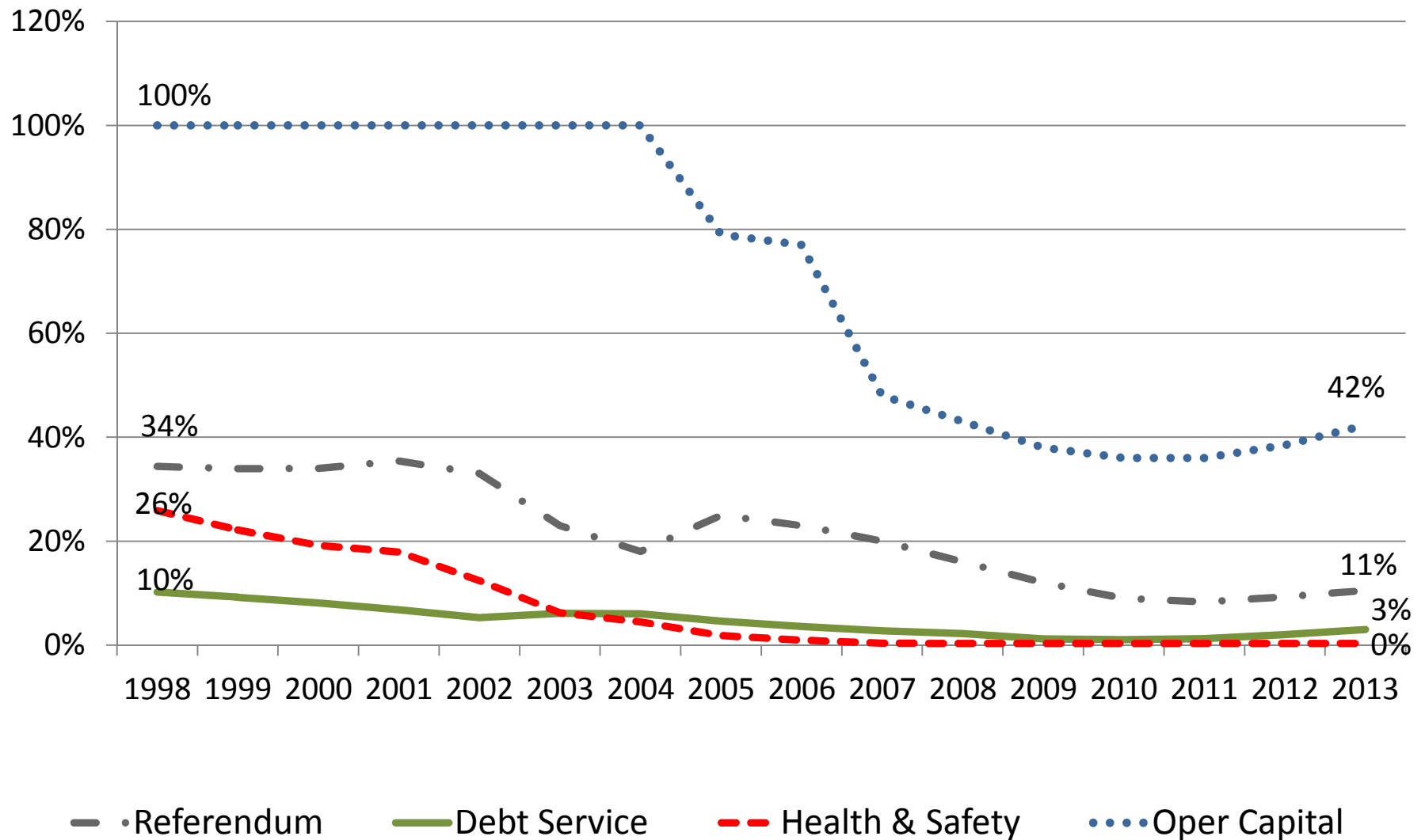
Percent Change in General Revenue / ADM, FY 2003 to FY 2013, Excluding Referendums, Not Adjusted for Inflation



Percent Change in General Revenue / ADM FY 2003 to FY 2013, Excluding Referendums Adjusted for CPI



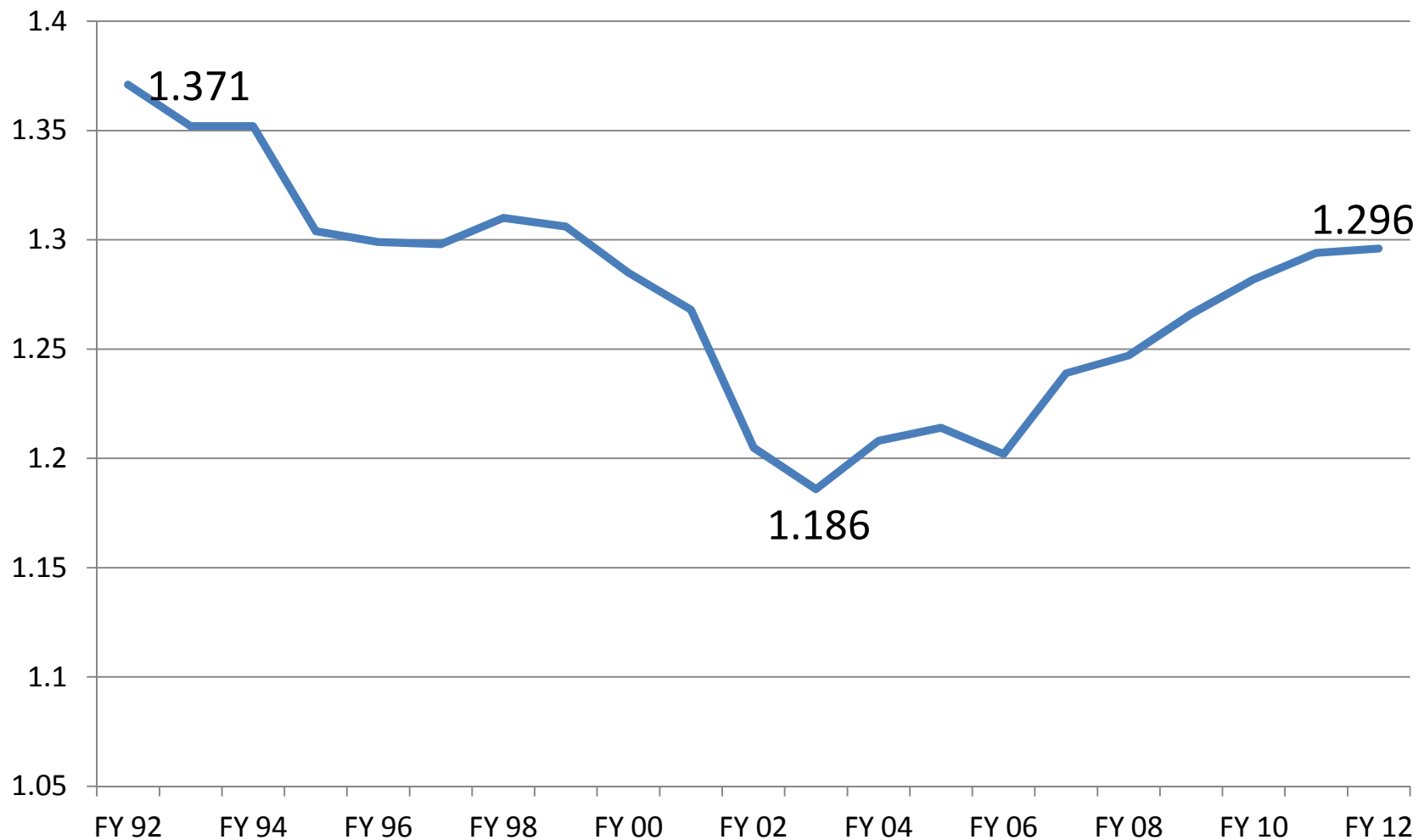
State Share of Revenue for Major Equalized Levies



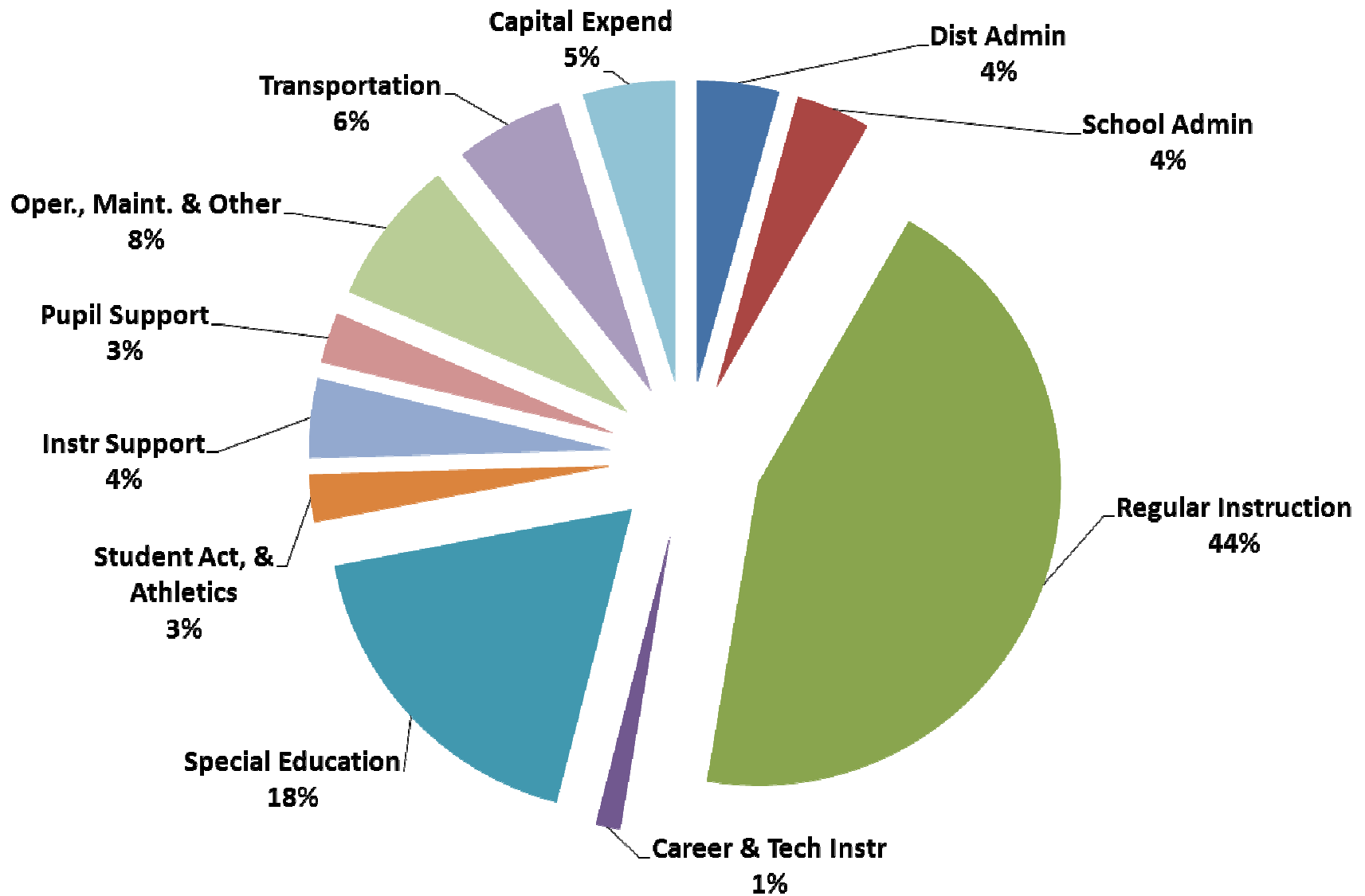
Change in General & Special Ed Revenue By Component FY 2003 – FY 2013, \$ in millions

	FY 2003	FY 2013	Change	% Change
Referendum	292	860	568	195%
Basic	4490	4,990	500	11%
Special Education	631	990	359	57%
Compensatory	263	461	198	75%
Extended Time	0	71	71	New
Q Comp	0	70	70	New
Equity	35	93	58	166%
Transition	0	30	30	New
School Land Endowment Trust	0	24	24	New
Small Schools	0	16	16	New
Pension Adjustment	-47	-31	16	-34%
Compensatory One-time	0	15	15	New
Gifted and Talented	0	12	12	New
Sparsity	16	25	9	56%
Transportation Sparsity	56	62	6	11%
Compensatory Pilot	0	2	2	New
Operating Capital	198	197	-1	-1%
LEP Total	37	40	-7	-15%
Training and Experience	25	0	-25	-100%
Subtotal	6,007	7,927	1,921	32%

Ratio of 95th to 5th Percentiles of Basic + Referendum + Equity Revenue / PU

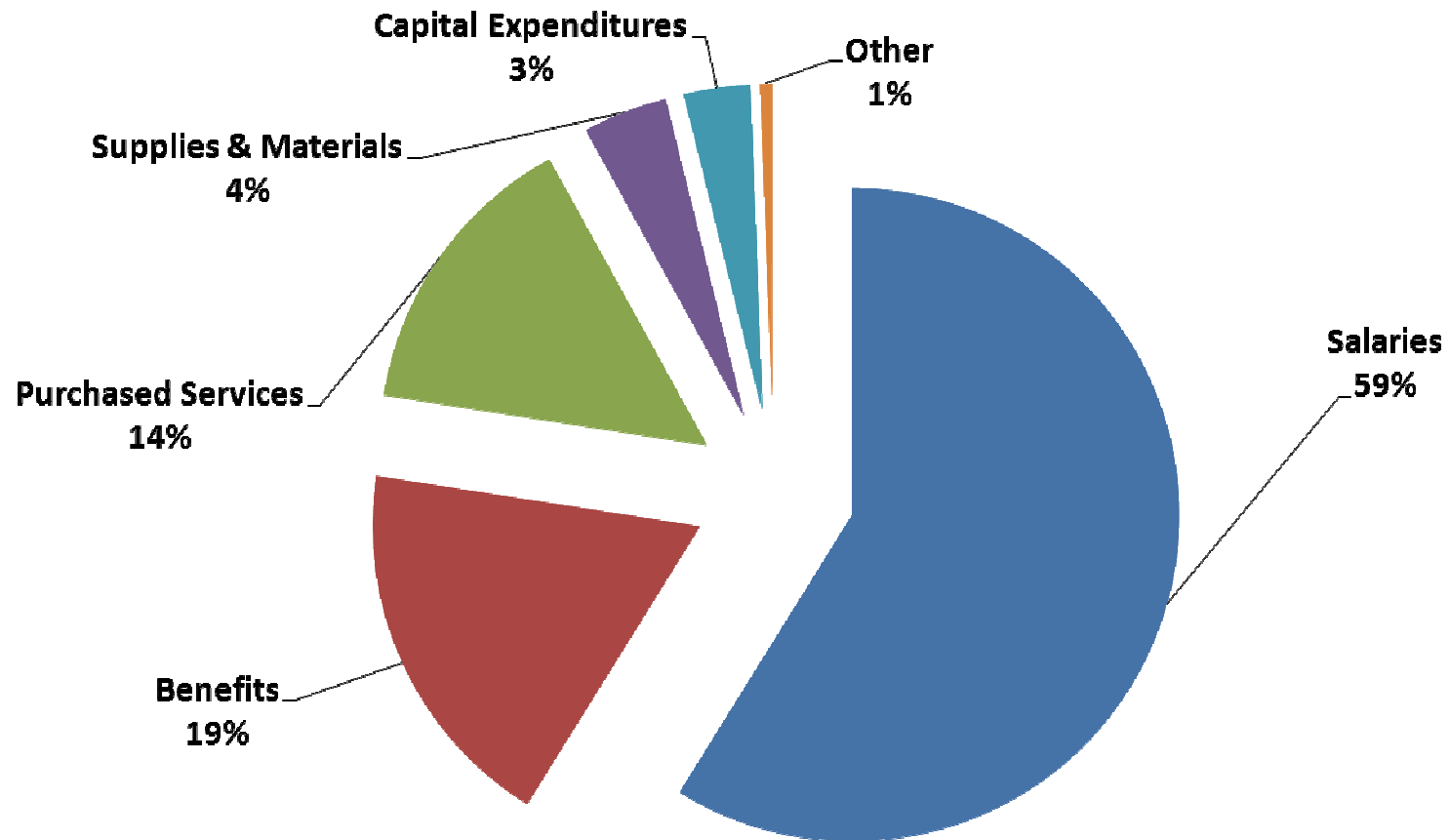


GENERAL FUND EXPENDITURE PERCENTS BY PROGRAM FY 2011



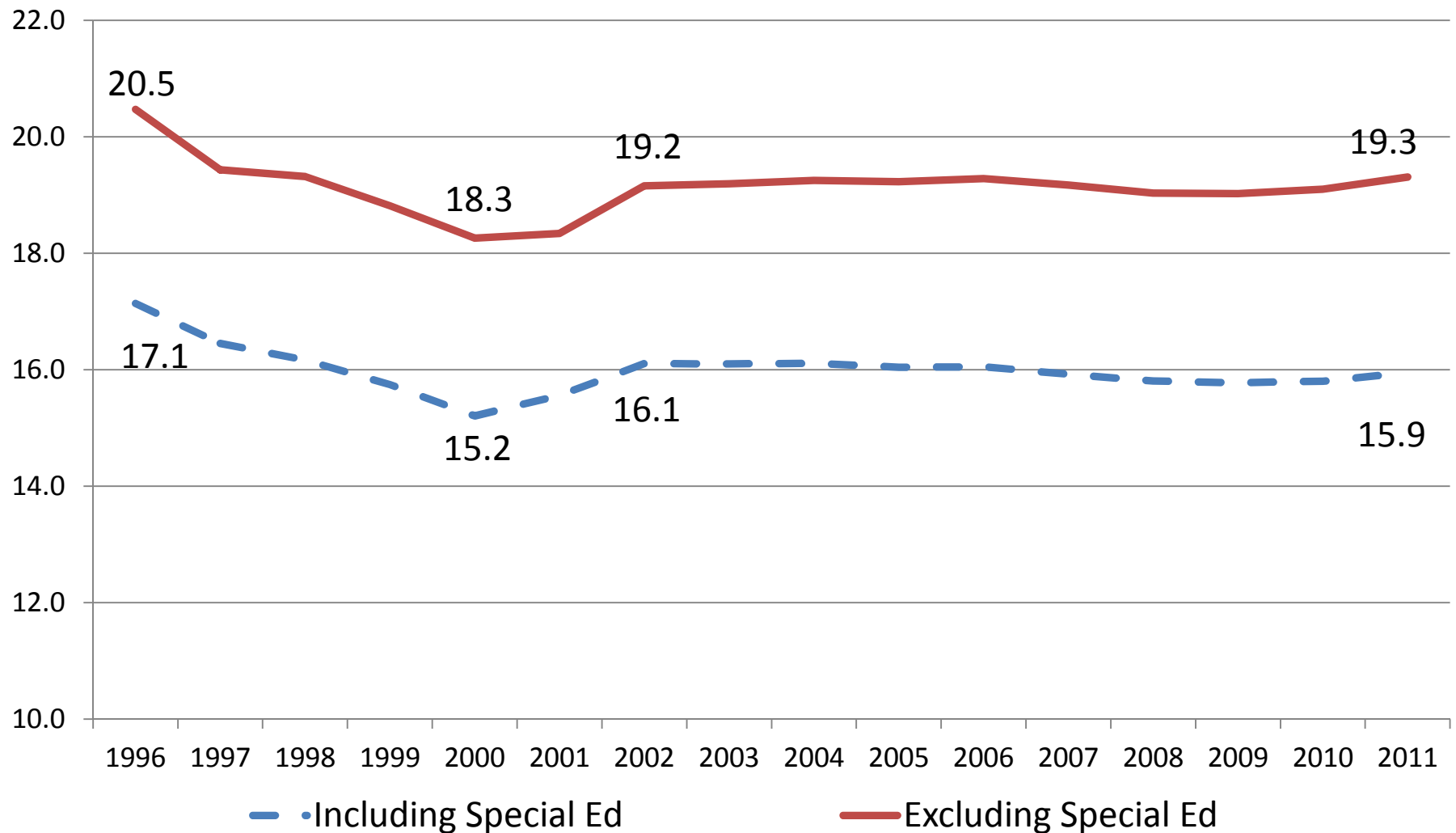
Source: MDE

GENERAL FUND EXPENDITURE PERCENTS BY OBJECT FY 2011

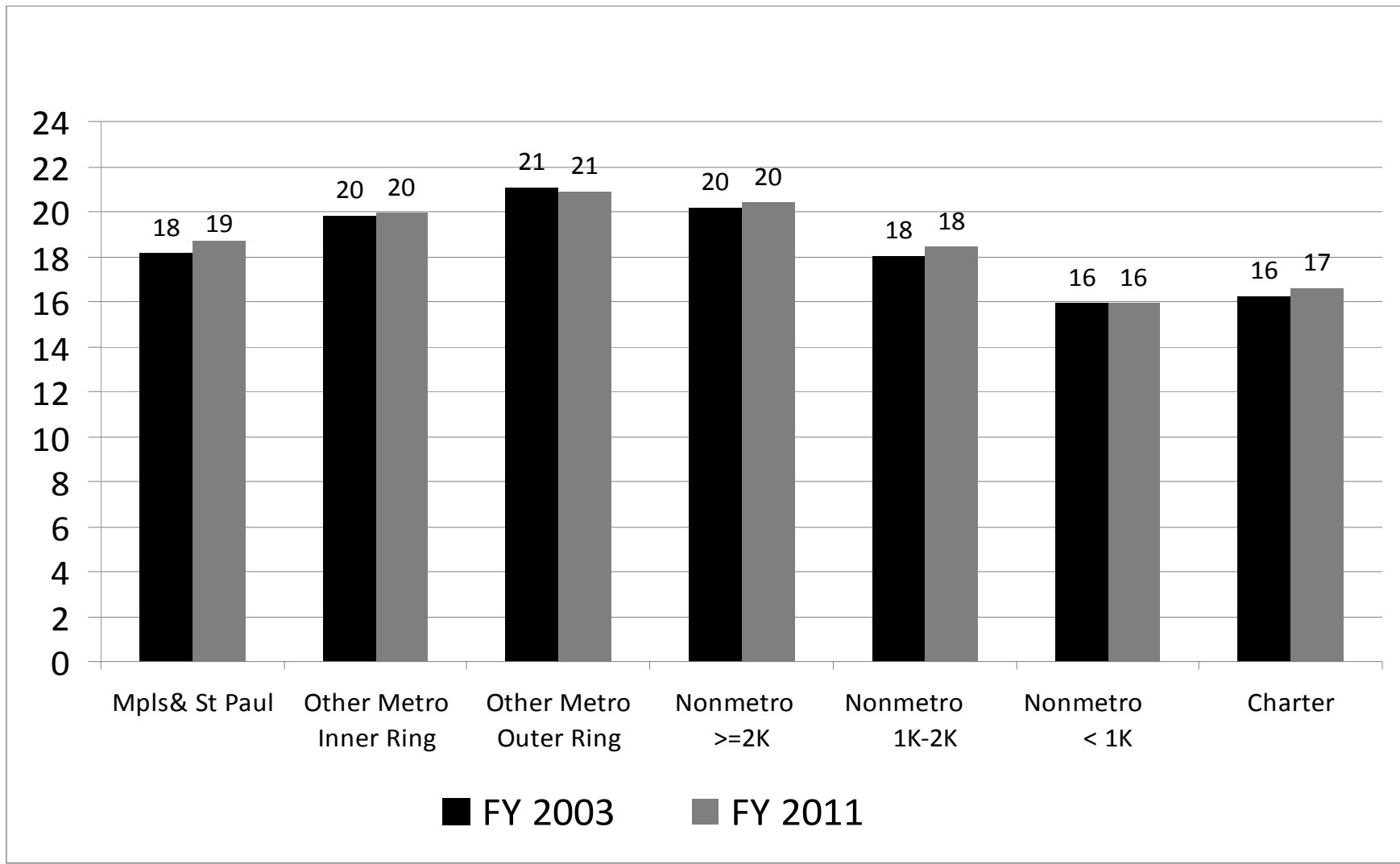


Source: MDE

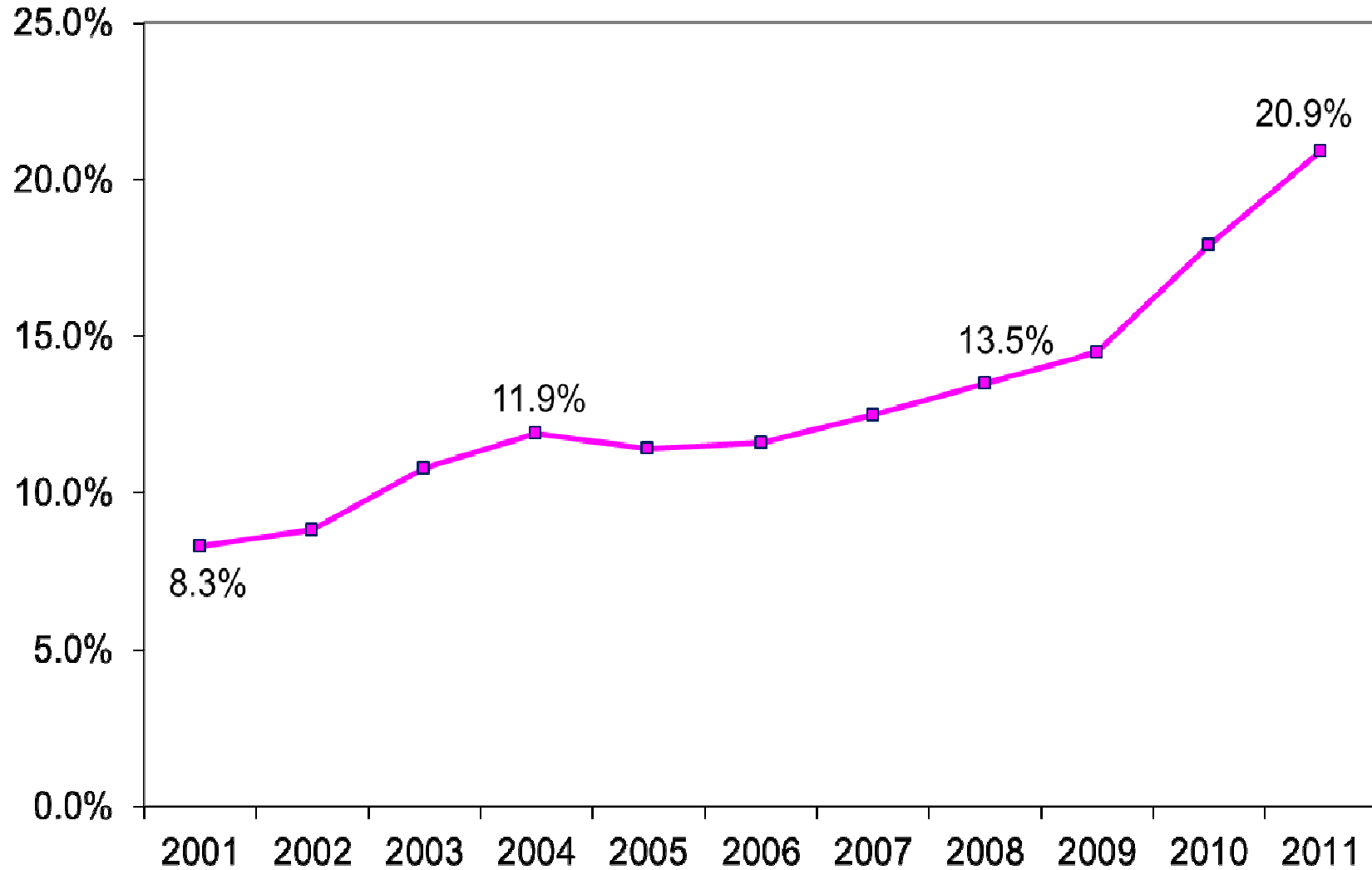
Pupil-Teacher Ratios, 1996 - 2011



Pupil-Teacher Ratios Excluding Special Educ by Strata, FY 03 and FY 11



UNRESERVED GENERAL FUND BALANCE OF SCHOOL DISTRICTS & CHARTER SCHOOLS AS PERCENT OF EXPENDITURES



Source: MDE

PERCENT OF SCHOOL DISTRICTS AND CHARTER SCHOOLS WITH NEGATIVE GENERAL FUND BALANCES OR IN SOD

